

**THE ROLE OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN
ENHANCING INSURANCE MARKET PENETRATION IN KENYA. A
CASE OF CIC INSURANCE GROUP LIMITED.**

BY

ANDREW MURUNGA MAKOKHA

SUPERVISOR: JACOB NYAMILA

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
MASTER IN BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI.**

OCTOBER, 2013.

DECLARATION

I, the undersigned, declare that this is my original work and it has not been submitted to any other college, institution or university other than University of Nairobi for academic credit.

Signed _____

Date: _____

Andrew Murunga Makokha.

D61/60413/2010.

This Research Project has been presented to the University for Examination with my approval as the appointed University Supervisor.

Signed _____

Date: _____

Jacob Nyamila.

Lecturer Department of Business Administration

School of Business, University of Nairobi

ACKNOWLEDGEMENTS

I sincerely acknowledge the God Almighty for all knowledge and wisdom belongs to Him. He listened to our prayers during the time I pursued my MBA. Were it not for His grace, nothing would have happened. I am deeply indebted to my two boys Wiseman Murunga and Wisdom Murunga for the time they spent without me while I pursued my classes and examinations, and to my wife and family for the support I have received from them.

Not forgetting the management at CIC Insurance Group Ltd. for their patience and assistance. This would not have been possible without your support. I would also like to register my appreciation to my supervisor Mr. Jacob Nyamila for offering a lot of guidance and assistance in coming up with this research report. Much appreciation also goes to my moderator and lecturer Ms. Caren Angima for the instrumental role she has played in guiding me through my course and also to the entire management of the University of Nairobi for giving me the opportunity to undertake my studies at the institution.

DEDICATION

I dedicate this work to my two boys Wiseman Andrew Murunga and Wisdom Andrew Murunga for the time they missed me at home whilst attending classes and examinations each evening and weekends.

ABSTRACT

The major determinant of an organizations success today in the changing turbulent environment depends on successful adoption of competitive strategies. This study sought to investigate the role of savings and credit co-operative societies in enhancing insurance market penetration at CIC Insurance Group Ltd. The study adopted a case study research design as it sought to gain an in-depth understanding of specific factors affecting the adoption of SACCOs in enhancing insurance market penetration at CIC Insurance Group Ltd. A total of seven respondents were interviewed using an interview guide. The researcher used both primary and secondary sources of data. The survey findings indicated that the leading contributions SACCOs have played at CIC Insurance Group Ltd. are an increase in their market penetration, diversification of income sources, establishment of a rapid market presence among others. This adoption of SACCOs has played a major role in the company's market penetration as insurance industry statistics have shown a consistence growth in the company's premium income and market share which are the major measurements of market penetration. The challenges experienced in implementing this concept were as a result of the regulatory framework, Kenyan culture and negative perception about insurance, competition from insurance brokers and agents among others. The main conclusion is that the implementation of this concept has enhanced insurance market penetration at CIC through increased premium growth and market share at CIC Insurance Group and regulatory framework is the leading challenge in the implementation of the 'saccoassurance' concept. The researcher recommends that the insurance company and SACCOs should form long term partnership agreements, own joint subsidiaries, maintain good relations as well as provide high quality service to the customers and also enhance the sustainability of the partnerships. For further studies, future researchers can focus on other financial institutions in the financial services sector so as to find out how other institutions like the banking industry can benefit from the existence of SACCOs through initiatives like agency banking.

ABBREVIATIONS/ACRONYMS

SACCO:	Savings and Credit Cooperative Society
IRA:	Insurance Regulatory Authority
CEO:	Chief Executive Officer
MFI:	Micro Finance Institutions
CBO:	Community Based Organizations
CIC:	Co-operative Insurance Company
AKI:	Association of Kenya Insurers
GDP:	Gross Domestic Product
CUNA:	Credit Union National Association
BC:	Before Christ
USA:	United States of America
MD:	Managing Director
UNDERWRITERS:	Insurance Companies
KNFC:	Kenya National Federation of Co-operatives
4 Ps:	Product, Price, Place and Promotion
KCB:	Kenya Commercial Bank
NIC:	National Industrial credit bank
CIS:	Co-operative Insurance services
ZAKAT:	Islamic principle of offering
SACCOASSURANCE:	Non official term for distribution of insurance through SACCOs

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Waugham (1989) defines risk from an insurance perspective as a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for. There is no escape from the presence of risk, and humanity must accordingly seek ways of dealing with it. The existence of risk is a source of discomfort to most people and the human rational nature leads them to attempt to do something about it. There are five ways people deal with risks which are, risk may be avoided, retained, transferred, shared or reduced Davis, Hood & Stein (2008). There are a number of ways of transferring risk and the focus here is on the insurance device focusing on the manner in which it can be distributed to achieve greater market share.

Insurance products have historically been distributed through insurance brokers who act on behalf of the customer (the insured); insurance agents who act on behalf of the insurance company and insurance business have also been marketed directly without going through the intermediaries Walmsley (1995). Insurance penetration is the ratio of insurance premium to the GDP of the country, giving an indication of the industry's contribution to the local economy while market penetration can be defined as sales of a company in a market in which homogenous products exists, this is mainly measured by premium income and market share. With the traditional distribution channels, insurance penetration in Kenya has remained very low at around 3.09% (AKI, 2011) and insurance companies are looking beyond the traditional distribution channels and developing new avenues to penetrate the market.

1.1.1 Market penetration

Market penetration strategy represents the plan by which the firm delivers its value to customers. It also specifies how the firm would go about its value selection, value creation and value communication Ramaswamy & Namakumari (2009). Traditional Market penetration involved concepts such as market segmentation, target market selection and strategy development for the marketing mix variables. With increased competition and maturity of markets, however, these traditional marketing mix elements have become commoditized (Duncan & Sandra, 1998). In their new approaches to market penetration, innovative managers have moved to a more humanistic and relationship based model. Companies realize that their most valuable assets are relationships with key stakeholders. Many firms prefer to distribute direct to the final consumer as working with middlemen with different objectives can be troublesome William & Jerome (1996).

A company may increase its market penetration through competing in the existing market and taking up part of the competitors' market share, this has been a red ocean strategy adopted by some organizations while others create a market for themselves making competition irrelevant through efforts like strategic partnerships and emerging markets. Strategic partnerships can be viewed as alliances between commercial companies when each possesses an asset or idea that can help the other. In the current economies, strategic alliances enable businesses to gain competitive advantage through access to a partner's resources, including markets, technologies, capital and service. The strategic joint effort of banks and insurers to provide insurance services to bank's customers is an emerging concept that is growing globally.

Beyond bancassurance the insurance market is creating more avenues for market penetration and as said by CIC General Insurance MD. Mr. Kenneth Kimani on strategic partnerships “As part of our planned expansion programme, we are currently discussing with several prospective partners including SACCOs” (CIC, 2013). Savings and credit co-operative societies (SACCOs) are turning out to be a major market penetration channel for insurance products and it is just a matter of time before “saccoassurance” becomes a reality. Insurance companies are also creating new avenues to reach untapped markets and the development of Takaful which is a unique system of mutual risk sharing is just one of the emerging new markets. It concentrates on providing maximum assistance to the ‘unfortunate’ few where profits are shared with policy holders at the end of the year. Takaful is rational and altruistic, since it is embedded in the principles of zakat Najatullah (2009).

1.1.2 Savings and Credit Co-operative Societies

We may not discuss the history of South Sudan without discussing the history of the Sudan. On the same basis it is difficult to discuss the history of SACCOs without discussing the history of the co-operative movement. Tradition rightly acknowledges the foundation of the Rochdale Equitable pioneers society in 1844 as the starting point of the true history of co-operatives. Before this date, however, not only did some authentic co-operatives really exist, some of which are still in existence, but the essential features of co-operative thought were already shaped Lambert (1963). Co-operative institutions are in some respects very old. Striking analogies were discovered between institutions dating from antiquity or the middle ages and contemporary. Co-operative institutions like the common diaries in Armania, land renting associations in Babylon, burial brotherhood and craft insurance companies among the Greeks and the Romans, Cheese

producing associations of Jura and Savoy, the agricultural organizations known as Zudraga among the Serbs among others, are only analogies and no historical link exists between these ancient manifestations of the community instinct and the co-operatives of the nineteenth century Kennedy (1999).

The modern co-operative concept started in 1844 and it has since developed globally as a social and economic movement with its own distinct identity, history, structure and purpose. Co-operatives cover a wide range of economic activities in agriculture, credit and banking, insurance, retailing, wholesaling, industry and commerce. The International Co-operative Alliance (ICA), founded in 1895 is the global federation of co-operatives. ICA defines Co-operative as “A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly-owned and democratically-controlled enterprise” Birchall (1997).

The history of the Co-operative movement in Kenya dates back to the beginning of the 20th Century. The earliest Co-operative was established by white settlers in 1908 at Lumbwa (currently known as Kipkelion) in Kericho County. When Kenya achieved independence from the British Government in 1963, the new government gave emphasis to the promotion of Co-operatives as a key strategy for national development (Republic of Kenya, 1965). In the late 1960's a new concept of savings and credit co-operative societies was introduced, where the employer was mooted as a defined common bond. In 1965, a conference sponsored by the Credit Union National Association (CUNA) and the department of co-operative development passed recommendations to encourage salaried worker co-operatives. The conference focused on

mobilization of local savings in the entire African continent, borrowing from the USA's credit union model. A major outcome was the formation of the African Co-operative Savings and Credit Association (ACOSCA).

The story of the savings and credit co-operative movement in Kenya is of unique social and economic interest. It has at its core, the message of inspiration and emancipation of the individual economic wellbeing, community development and strengthening the fundamental economic foundations of the country Kobia (2001). While most of the principles, ideas and values of the co-operative enterprise have remained unchanged over the decades, new technological and corporate challenges are demanding a paradigm shift out of sheer necessity. The co-operative business model and structure has not changed much, but the content and social dynamics are changing fast. The Kenyan SACCO experience is marching towards maturing, calling for any urgent need to provide the literate and development to reflect this growth and aspirations. In Kenya, different types of co-operative societies are in existence. There are categorized as follows, agricultural and marketing co-operatives, consumer co-operatives, housing co-operatives, savings and credit co-operatives, service co-operatives and multipurpose co-operatives Ouma (1987).

A SACCO is a co-operative society, whose objective is to encourage its members to save, thereby creating or accumulating capital, which can then be lent to members at a reasonable rate of interest Davis and Donaldson (1998). As a source of credit facilities, these co-operatives have generally achieved their objectives. Access to credit is undoubtedly a major incentive to save. The introduction of thrift and savings co-operatives, were initiated late in the 1950's and a few

such co-operatives were then formed. Since the introduction of SACCOs based on employment as a common bond and allowing for a check off systems, SACCOs have made a breakthrough and succeeded in a big way. It is in this way (check off) that regular savings are accumulated and it is from this that loans are given. The Motto for success in SACCOs is “save regularly, borrow wisely and repay promptly”.

1.1.3 The Development of Insurance

There is evidence of many practices resembling insurance in the ancient world. As early as 3000 BC, Chinese merchants utilized the techniques of sharing risks. To reduce the impact of losses on any one individual, the merchants devised the plan of distributing their goods on each other's boats. When a boat was dashed to pieces on the rocks, the loss was shared by all rather than falling upon a single individual Mehr (1986). About 500 years later the famous great code of Hammurabi provided for the transfer of the risk of loss from merchants to money lenders. Under the provisions of the code, a trader whose goods were lost to bandits was relieved of the debt to the money lender who had loaned the money to buy the goods. Babylonian money lenders undoubtedly loaded their interest charges to compensate for this transfer of risk. This was later adapted to the risk of sea trade by Phoenicians and then by Greek Mehr (1986).

There is further evidence from Ancient Greece and Romans when individuals came together to form associations or funeral clubs from which costs would be met for those unfortunate enough to have to pay the cost of a burial Greene and James(1988). The Great fire of London in 1666 played a major role in the development of insurance where a large section of the city was completely destroyed by the infamous fire which started in pudding Lane. By 1861, when

another great fire, that of Tooley Street occurred, there was a realization among industry participants and Society as a whole that the insurance industry as it was, was inadequate and unable to cope within the losses arising Williams and Richard (1985).

Lloyd's of London has been established for over 300 years, originating in a London Coffee house. It developed from marine trading and one cannot fail to have heard of Lloyd's since it has a worldwide reputation. The Lloyd's market differs significant to the Association of British Insurance (ABI) Companies and is historically based on a system where private individuals, known as names, provide the funds for payment of claims. These names are not necessarily experts in insurance and therefore rely on their underwriting agents and underwriters to assure the responsibility for the profitability of their own underwriting accounts. It describes itself as "a market of competing professional underwriters who accept risks on behalf of the members of their syndicates".

Before we look at the Kenyan insurance market, its structure and the structure of insurers within it, it may be helpful to consider the scale of world insurance business and in particular how insurance is judged to be in individual countries by looking at the proportion of GDP spent on insurance products. Table 1.1 below puts USA a little way down the league and demonstrates the importance of insurance within some Africa economies.

Table 1.1 Insurance penetration: premiums as a percentage of GDP in 1993

Rank	Country	Total business %
1	Japan	12.64
2	South Africa	12.16
3	Zimbabwe	11.74
4	UK	11.73
5	South Korea	11.61
6	Switzerland	9.26
7	Barbados	9.07
8	USA	8.90
9	Ireland	8.82
10	Netherlands	8.62

Source: “Sigma, Swiss Reinsurance Company”

Although insurance is very much an international business, the individual national markets all have unique identities. Some governments exercise considerable controls on what may be insured and how insurers may invest their premiums. The government in Kenya, whilst regulating the solvency and control of the industry, does not interfere greatly in other ways.

1.1.4 The Kenyan Insurance Market

The insurance industry in Kenya is governed by the Insurance Act and regulated by the Insurance Regulatory Authority whose mandate is derived from the Insurance (Amendment) Act 2006. The players in the insurance industry are; Claims Settling Agents (2), Insurance Agents (3668), Brokers (141), Insurance Companies (45), Investigators (105), Surveyors (23), Loss Adjustors (21), Reinsures (2) and Risk Managers (10) (AKI, 2011).

The customers in the Kenyan market are private individuals, industry and commerce and local and national governmental organizations and voluntary organizations. The entire population of Kenyan households and all public and private industries and services are potential customers. There has been a lot of activity in the industry relating to the regulatory authority that is charged with regulation, supervision and development of the insurance industry in Kenya. In 2010, the industry recorded a gross premium of Kshs. 76.9 billion compared to Kshs. 65 billion in 2009 representing an 18% growth in gross direct premium income (IRA, 2011).

Insurance regulatory Authority has been keenly working on increasing insurance penetration in Kenya by creating appropriate legal structures. The considerable challenges that the IRA faces are very low insurance awareness, negative perception and appropriate products that can reach the poor who have no access to insurance protection from traditional insurance providers. Collaborations with SACCOs is the best way to reach millions of Kenyans who have no access to insurance, which forms the basis of success of CIC Insurance Group Ltd. and its quest for the introduction and operationalization of “Saccoassurance”. SACCOs are a strong vehicle that can be very effective in improving both economic and social development especially in developing countries. Exploitation of the potential of these groups has been very minimal by other service industries such as insurance yet they have a potential of reaching every member at the grassroots level.

1.1.5 CIC Insurance Group Ltd.

CIC Insurance Group limited started as an insurance agency in 1968 within the Kenya National Federation of Co-operatives (KNFC) and was later licensed as a composite insurance company

in 1978 to underwrite all classes of business trading under the name Co-operative Insurance Services Ltd. The company's target market and shareholding was the co-operative movement whose support has helped it grow steadily (CIC, 2013). In 1999 the company's name was changed to the Co-operative Insurance Company of Kenya Ltd. and has undergone major transformations since then to emerge as a serious and reliable underwriter. From a little known insurance company with a premium income of only Kshs. 2.370 billion in 2008, it has grown to a relatively big and well-respected company with Kshs. 9.010 billion in premium income in 2012 (CIC, 2013).

This rapid growth coupled with their distinguished track record in claims settlement has propelled it to the top 3 out of 47 insurance companies in Kenya. Importantly, CIC is now the 3rd largest life insurance company in Kenya and the market leader in Group life business where it has a cumulative market share of 28% (AKI, 2011). Following the demerger of insurance business in line with international and world class standards, the Co-operative Insurance Company Ltd. changed its name to CIC Insurance Group Ltd. comprising of CIC General Insurance Ltd. which conducts general business with a holding of 100%; CIC Asset Management Ltd. which manages funds and asset management with a holding of 100%; CIC Life Assurance Ltd. which conducts life insurance business with a holding of 100%, CIC of Africa SS Ltd. a subsidiary in South Sudan with a holding of 69% and Takaful Insurance Ltd. which provides sharia compliant products with a holding of 26% (CIC, 2013).

The group's strategic plan for the period 2009-2013 aims at consolidating the success and gains of the last five years by further improving the company's positioning among the big league insurers in Kenya and the region. By the end of 2013, the company projects to have a

commanding market share especially in life business and micro insurance in which it has played a pioneering role. This is possible with proper distribution channels and partnerships. It strongly believes that these targets are achievable with the current impetus of growth, given that they recently launched a number of new products and ventured into new market segments.

CIC is the largest co-operative insurer in Africa and is in strategic partnership with Co-operative Bank (CIC, 2013). It is in strategic partnerships with banks, micro finance institutions, community based organizations, and SACCOs for customizing and distributing products. SACCOs being at the centre of the company's operations, the company has formed a full division led by a general manager in charge of co-operatives which consists of co-operative marketers, "saccoassurance" officers, underwriters in charge of co-operatives and co-operative relationship officers to specifically source and service business from this segment of the market.

1.2 Research problem

As the insurance sector is poised for a rapid growth, in terms of business as well as number of new entrants, tough competition has become inevitable. Insurance companies are speeding up the search for new distribution channels to cover a bigger market. Most insurance companies reach their clients through selling policies either through agents or an insurance brokerage firm. This is the case with CIC Insurance Group Ltd. in addition to it targeting unexplored markets through strategic alliances and other market penetration strategies. It is perceived that the ability to integrate SACCOs and insurance companies and in particular CIC Insurance Group Ltd. will result into wider penetration of insurance services to all. In Kenya a large segment of population is left out of formal insurance. The compatibility between micro

insurance and co-operative principles has created an obligation to form a policy framework to spread insurance awareness and offer low ticket insurance packages and services.

With the traditional distribution channels of insurance brokers, agents and direct sales having made no great impact on improving insurance penetration in Kenya, it is important to determine if SACCOs are playing a significant role in insurance distribution and market penetration at CIC Insurance Group. CIC Insurance Group Ltd. has been active in the low-income market for a number of years, administering a handful of products through its unique distribution channels. Given its experience in the market and dedication to grow the business, the company established a co-operatives division and has since then benefited a lot from its existing links with SACCOs in Kenya that has allowed it to easily form partnerships to distribute insurance products. It has successfully implemented these innovative insurance packages where the Co-operative Bank offers credit facilities through the strategic alliance.

In his research project on strategic responses to industry environment by CIC Insurance Group Ltd. (Mbugua, 2011) found out that there were various changes in the remote and industry environment that were identified as posing challenges to CIC Insurance Group Ltd. The responses included compliance with the guidelines of IRA, cost leadership strategies, differentiation strategies, focus strategies, branch network strategies, building trust with Diaspora market, marketing through the internet and also social media sites, I am a cooperator campaign, increase in sales and marketing force and market segmentation. Strategy implementation is one of the components of strategic management and refers to a set of decisions and actions that result in the formulation and implementation of long term plans designed to achieve organizational

objectives. (Kiarie, 2012) conducted a study on strategy implementation at Co-operative Insurance Co. Ltd. From the study findings it was possible to conclude that some of the strategic management practices adopted by CIC insurance include the use of a top down approach in strategy implementation.

In her study on CIC Insurance (Karuri, 2010) says images of corporations, however right or wrong they may be, seem to form in a way a very complex communication process involving most varied information sources. Businesses operate within a society. It is this society that supplies the business with its inputs and consumes the goods and services the business produces. Further (Ambwaya, 2012) conducted a research to determine the marketing strategies that have been adopted by deposit-taking SACCOs and what has influenced their formulation and implementation. The study found out that majority of the respondents among the SACCOs indicated that their position in the competitive market was the challenge. The study also found out that to a large extent the competitive market position influenced the pursuit and adoption of the SACCO's marketing strategy.

It is evident that several studies have been conducted on CIC Insurance Group Ltd. and on SACCOs but no study has been done to determine the role of SACCOs on the insurance market penetration at CIC Insurance Group Ltd. and by large the insurance penetration in Kenya. This study thus seeks to fill in this knowledge gap. Therefore, this study seeks to answer the following research question; what is the contribution of SACCOs to the insurance market penetration at CIC Insurance Group limited?

1.3 Research objectives

The objectives of the study were as follows:

- i. To determine the contribution of SACCOs in enhancing insurance market penetration at CIC Insurance Group Ltd.
- ii. To determine the challenges faced by CIC Insurance Group Ltd. in distributing insurance products through SACCOs.

1.4 Value of the study.

The study will be of value to management of CIC Insurance Group Ltd since it will help them understand the importance of ensuring effective partnerships they have designed. The recommendations of this study will form part of the action plans that will help in enhancing good service delivery by the insurance company. The management will be able to make informed decisions on implementation of the strategic plans that can enhance their market penetration.

The regulators in the insurance industry will also find invaluable information on how to formulate their regulatory policies that will guide and encourage other firms within and without the industry in implementing their strategies. This is more so on the basis of licensing SACCOs to distribute insurance products through “Saccoassurance” just as it is the case for banca assurance. The current regulatory framework in insurance distribution is rigid and IRA has complete control on licensing of commission earning insurance distributors.

For academicians, this study will form the foundation upon which other related and replicated studies can be based on. Scholars will find it important as the study will increase to the body of

knowledge in this area and enable them to be more informed when exploring the role of SACCOs in the insurance industry. This is mainly so because the study aims to highlight factors unique to SACCOs that can benefit the insurance industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on the role of SACCOs in enhancing insurance market penetration by CIC Insurance Group Limited. This entailed an overview of the theoretical foundations and market penetration strategies relevant to the insurance industry. The conceptual framework was highlighted to case show the possibility and relevance of this study. The literature also covered an overview of insurance distribution channels including their challenges.

2.2 Theoretical Foundation.

Insurance is a risk transfer mechanism, whereby the individual or business enterprise can shift some of the uncertainty of life on the shoulders of others in return for a known premium Waugham (1989). Williams & Richard (1985) said that insurance is a risk transfer mechanism designed to transfer the financial consequences of risk to someone other than the person/ organization who would be adversely affected if the risk should occur. Insurance may be defined as a Contract (called policy) in writing under which one party (called insurer) agrees in return for a consideration (called premium) to indemnify the other party (called insured) against the loss or damage suffered on account of an uncertain future event or contingency or to pay a specified sum on the happening of a specified event Saleemi (2007).

The competition within the insurance industry today is intense, perhaps more than at any time in history, this rivalry takes place in three areas, price, quality and service. Insurers compete on the basis of price by offering a lower priced product than other companies dealing in the same lines of insurance. The price of insurance coverage, like most prices, is a function of the cost of

production. The most important aspect is that the costs must vary significantly. The costs that are common to all insurance companies include payment of losses, loss-adjustment expenses, cost of production (sales expense), administrative expenses, taxes and profits or additions to surplus. In addition to price competition, insurance companies also compete by offering different forms of policies, with broader insuring agreement or additional provisions that are beneficial to the insured. Essentially insurance product is a promise of future performance. The individual seldom knows if the product he or she has purchased is adequate until a loss occurs, a rather inconvenient time to find that it is inadequate. One major feature that certain types of insurers have stressed is the service and advice the agent gives to the individual client. Such an approach has been adopted in different degrees by insurance underwriters and there may well be scope for unlocking latent potential in the market and the country by developing suitable business models on this premise.

It may be helpful to consider the scale of world insurance business and in particular how insurance is judged to be in individual African countries by looking at the proportion of GDP spent on insurance products. Statistics puts Kenya a little way down the league at position three behind South Africa and Mauritius (Swiss Re, 2002) and it demonstrates the importance of insurance within some Africa economies. Although insurance is very much an international business, the individual national markets all have unique identities. Some governments exercise considerable controls on what may be insured and how insurers may invest their premium.

2.3 Market Penetration

Within the broad category of protecting and building the organizations' position, there may be opportunities to gain market share, this is known as market penetration Johnson & Scholes (1997). Much of the activities like competencies which sustain or improve quality or innovation or increasing marketing activity could all be means of achieving market penetration. However, the ease with which an organization can pursue a policy of market penetration will depend on the nature of the market and the organization's resources and core competences and the extent to which these can be developed. Formulation of an appropriate market penetration strategy is a prime concern for any organization. In the expanded sense market penetration strategies aims at meeting competition, securing sales, gaining market share and achieving profits. Market penetration strategy represents the plan by which the firm delivers its value to customers. It also specifies how the firm would go about its value selection, value creation and value communication. Formulation of market penetration strategy consists of two steps namely STP (segmentation, targeting, positioning) and assembling the marketing mix Ramaswamy & Namakumari (2009).

The market penetration strategy takes shape when these two steps are completed. Segmentation of the market is the starting point of the whole exercise. The market for any product is stratified based on several characteristics. Segmentation is the process by which you try to understand the heterogeneous market by viewing it from different angles and grasping the commonalities as well as differences contained therein and then dividing the whole market into segments, each homogenous within itself, sharing certain common characteristics. A further market segmentation involves market atomization which is an approach that breaks down the market to

the finest level of detail. It is a strategy, which treats each consumer uniquely Thuo (2008). The process of segmentation throws up several market segments with varying potential. The firm may not be interested in all the segments. Targeting means picking up of the appropriate segments. Positioning the offer comes in ones the firm has already selected the target market and decided on its basic offer.

In the execution of market penetration strategy, the marketing mix plays the lead role. Assembling the marketing mix means making the best combination of the 4Ps. It involves decisions relating to each of the market mix elements, product, price, place and promotion and the linkages among them Ramaswamy and Namakumari (2009). The marketing mix forms a wide basis of market penetration strategies adopted by insurance companies because for product, insurance companies concentrate on product design, with unique features coupled with strong brand names and high service standards to penetrate current and untapped markets. Place on the marketing mix includes channels of distribution, types of intermediaries and location of outlets MacDonald and Ian (1998). For insurance practice, place involves channels of distribution like brokers and agents and type of agents whether tied or general. Price generally includes pricing policies, margins, discounts and rebates (as offered by Takaful Insurance), payment and credit terms as where insurance brokers are allowed to hold on premiums for up to 60 days. To sum it all we have promotion where insurance companies are taking up personal selling through tied agents, selling expertise like hard selling of life insurance products, large commissioned and non commission sales force, advertising through print and electronic media among others.

Gronroos (2000) suggests that the traditional marketing mix or the 4Ps approach used in the market penetration of goods is insufficient to market and manage services effectively because of services distinctive features. Market penetration strategy for services which includes insurance should be extended by three more Ps namely people, process, and physical ambience. People includes all human actors who play a part in service delivery and thus influence buyer perceptions. They include the firm's employees as their behavior, attitude, and expertise level, affect the firms competitiveness. Process involves actual procedures, mechanisms and flow of activities by which service is delivered while physical evidence or ambience refers to the environment in which the service is delivered. There has been an emerging paradigm shift in market penetration strategies. Co-operative partnerships, not competitive actions characterize current buyer- seller relationships better than the traditional transactional exchange process does (Ganesan 1994, Hunter and William 2007).

2.4 Insurance Distribution Channels

The insurance industry has changed rapidly in the changing and challenging economic environment throughout the world. Time has come to choose and adopt appropriate market penetration channels through which insurance companies can get the maximum benefit and serve customers in manifold ways (Manocha, 2009). The intermediaries in the insurance business and the distribution channels used will perhaps be the strongest drivers of growth in this sector.

Insurance industry in Kenya for fairly a longer period has relied heavily on traditional insurance brokers as distribution network for insurance products when penetrating

current and new markets. With these in place, the penetration level of insurance services still remains low with general insurance standing at 2.04 per cent, while that of life is 0.98 per cent of GDP (AKI, 2011). As the insurance sector is poised for a rapid growth, in terms of business as well as number of new entrants, tough competition has become inevitable. Insurance companies are speeding up the search for new distribution channels to cover a bigger market. Therefore, the zeal for discovering new channels of distribution such as bancassurance and the aggressive marketing strategies has become necessary (Karunagaran, 2006).

Insurance sales agents often referred to as representatives help individuals, families, and businesses select insurance policies that provide the best protection for their lives, health, and property. As per the law of agency insurance sales agents should work exclusively for one insurance company and are referred to as captive agents. Independent insurance agents represent several companies and place insurance policies for their clients with the company that offers the best rate and coverage. In either case, agents prepare reports, maintain records, seek out new clients, and, in the event of a loss, help policyholders settle insurance claims. Increasingly, some may also offer their clients financial analysis or advice on ways they can minimize risk.

Many firms prefer to distribute direct to the final customer or consumer. One reason is that they want complete control over market penetration. They may think that they can serve target customers at a lower cost or do the work more effectively than middlemen. Further, working with independent middlemen with different objectives can be troublesome William & Jerome (1996). If a firm is in direct contact with its customers it is more aware of changes in customer

attitudes hence it is in a better position to adjust its marketing mix quickly because there is no need to convince other channel members to help.

Strategic alliances offer an opportunity for companies to collaborate in doing business thereby overcoming individual disadvantages Somers (2005). The strategic joint effort of banks and insurers to provide insurance services to bank's customers is an emerging concept that is growing globally. This concept is referred to as bancassurance. The number of Kenyans with insurance is dismal and the industry has barely scratched the surface in terms of potential earnings. CIC Insurance Group Ltd. has utilized bancassurance effectively as a distribution strategy by partnering with banks like Equity, Co-operative, NIC and KCB among others.

Beyond bancassurance the insurance market is creating more avenues for business distribution and as said by CIC General Insurance MD Mr. Kenneth Kimani on strategic partnerships "As part of our planned expansion programme, we are currently discussing with several prospective partners including SACCOs" (CIC, 2013). SACCOs are turning out to be a major distribution channel for insurance products and it is just a matter of time before "saccoassurance" becomes a reality. Pre and Post independence government promoted co-operatives were largely in high potential areas, serving people who were not poor. But the gradual Africanisation of the movement spread economic benefits to large numbers of the less advantageous people. Large SACCOs like Mwalimu and Harambee have branches in almost the entire country and the various insurance products marketed by CIC covering members' loans, savings, education for children, funeral and medical insurance are designed to focus on social protection to co-operators

and their families. Such social services are not easily available to co-operative family from other type of organizations Kobia (2001).

The SACCO movement has gradually reached a position which makes it one of the Socio-economic cornerstones of this nation. This it seems correct to suggest that Kenya's future depends on how the co-operative ideas are carried out to the masses. It is therefore important that SACCOs are strengthened and assisted to diversify into new areas. Such expansion and diversification should cover fields such as insurance distribution and agency banking. Among the factors that have contributed to the success of Co-operative Bank and CIC Insurance are the solid foundations of co-operative business ideas and their prudent implementation and the support of faithful co-operative members and collaborations Kobia (2001).

2.5 The Challenges of Insurance Distribution

Kenya's financial services sector comprises a number of players with the most dominant being the banking and insurance industries. The insurance industry in Kenya is governed by the Insurance Act and regulated by the Insurance Regulatory Authority. With the increasing globalization and competition, many organizations are confronted with the problems of designing appropriate competitive strategies (Tomkins, 2001).

Regulation has been one of the major impediments to the growth of insurance across the globe. Countries such as the USA and Japan, while being global banking superpowers, have only recently begun allowing banks to expand into the field of bancassurance following regulatory changes that removed constraints to possible expansion across industries. This is by no means

limited to these two countries, but is a common occurrence in other areas of the world (Agrawal, 2002). In Kenya IRA still maintains full control and regulation of the industry and in specific on who can distribute insurance products on commission basis and that is why the push for SACCOs to form insurance agencies through “saccoassurance” is taking shape.

Among the other challenge in insurance distribution is the lack of trust and poor reputation of the industry. These problems become more compounded under intermediary business especially in Kenya. Particularly, the levels of commitment and inter-personal trust between the industry and local and/or international clientele have been singled out as contributing to the failure of increasing insurance penetration in Kenya.

Mis-selling is a major challenge in the insurance industry. When alliance partners do not engage in learning races, their collaborative activity may face severe barriers, as the process of integrating knowledge across organizational boundaries is fraught with inherent complexity (Anand and Khanna, 2000). Knowledge transfer may be obstructed by substantial differences in terms of knowledge bases, corporate cultures, and organizational structures. Insurance brokers and agents play a major role in distributing insurance products, however evidence of mis-selling has resulted in agents and in particular life insurance agents promising clients what an insurer may not be able to deliver.

When corporate strategies change as a result of a changing business environment, the assumptions upon which the business relationship was originally based also change.

This is more so in Kenya where IRA has held a grip on regulating the pricing of motor insurance and listed insurance risks. What was once a strategic investment may no longer remain strategic without modification to the terms of the contract. In the most extreme cases, the trust built between the two companies enables the adaptability to accommodate changes in the market or other conditions that impact one of the partners.

2.6 Conceptual Framework

Cowell (1989) says that, in the recent years there have appeared a variety of conceptual approaches aimed at defining the market penetration strategies for services. These approaches are applicable to the insurance Services. There are at least three perspectives (Eigler and Langeard, Gronroos and Shostack) that provide the basic understanding of market penetration strategies applicable to the insurance services. This framework has been put forward to help provide an understanding of the services concept.

Eigler and Langeard (1977) suggest that the fundamental characteristics of services are; intangibility where services are essentially intangible. It is often not possible to taste, feel, see, hear or smell services before they are purchased. Opinions and attitudes may be sought before hand and a repeat purchase may rely upon previous experience. Wilson (1972) suggests that the concept of tangibility may be divided further although somewhat arbitrarily, into services providing pure intangibles (e.g. security service), services providing added value to a tangible (e.g. insurance) and services that make available a tangible (e.g. retailing). Direct organization client relationships indicate that services cannot be separated from the person of the seller.

Consumer participation in the production process involves the innovation of products which depends on the consumers' behavior change Wilson (1972).

Gronroos (1980) suggests that there are three fundamental characteristics of services which include intangibility. A service is an activity rather than a thing and production and consumption are to some extent simultaneous activities. He argues that this basic characteristics of services make the customer relations of service firms fundamentally different from those of consumer goods companies and that the service organization has two marketing functions, the "traditional marketing function" and "the interactive marketing function". The latter is concerned with what happens in the interface between production and consumption.

Shostack too stresses the importance of intangibility as a fundamental characteristic of services. She argues that to extend marketing's conceptual boundaries, a framework is required which accommodates intangibility rather than denying it. A conventional framework used in market penetration is that an organizations' offering to the market place can consist of goods, services or a combination of both. Four broad categories on offer have been distinguished and they may be seen as lying along a continuum. These four categories are pure tangible goods like salt; tangible goods with accompanying services like motor car; a service with accompanying goods and services like passenger air transport; and pure service like massage.

Johnson & Scholes (1997) says that most organizations have developed in ways which have resulted in limited coverage of the market by their products. Careful thought needs to be given to the way in which an organization positions its products in the markets which inevitably means

selectivity of market coverage. However if the organization's aspirations outstrip the opportunities in existing markets, it is natural to look for opportunities to exploit the current products in other markets. The common ways of doing this include extension into market segments which are not currently served; development of new users for existing products and geographical spread either nationally or internationally into new markets.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter dealt with the methodology used in the study. It involved the methods the researcher used to collect the data for the study. These include research design, data collection and analysis procedures with the results from the study.

3.2 Research Design

The research design was a case study. Cooper and Schinder (2003), case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. The merit of using a case study is that it allows an in-depth understanding of the behavior pattern of the concerned unit. Additionally a case study allows a researcher to use one or more of the several research methods depending on the circumstances.

The use of a case study for this research enabled the understanding of the phenomenon which is the role of SACCOs in enhancing insurance market penetration at CIC Insurance Group Limited. The reason for this choice was based on the knowledge that case studies are the most appropriate for examining the processes by which events unfold, as well as exploring causal relationships and also they provide a holistic understanding of the phenomena. (Kiarie, 2012) conducted a study on strategy implementation at Co-operative Insurance Co. Ltd. The objective of the study was to determine strategy implementation practices at CIC Insurance Group Limited. The study adopted a case study research design and an interview guide was used to collect data.

3.3 Data Measurement

The study targeted 8 head of departments of CIC Insurance Group Ltd. in the following departments: co-operative marketing, underwriting, finance, corporate strategy, marketing, system administration, 'saccoassurance' and co-operative relationships. The data for the research was mainly primary data. A structured interview guide was used to collect the data. For the information to be valid, the targeted source of information were people who had been in the organization for a minimum of three years and who may have substantial information on the history of the organization. The use of interview guide was justified because it provided an effective and efficient way of gathering information within a very short time.

The data collected was both primary and secondary data. The primary data was collected using the interview guide while secondary data was collected from existing reports including the industry annual reports from IRA and AKI and industry survey reports done by Think business. CIC Insurance annual financial reports were also a source for secondary data.

3.4 Data Analysis

Data analysis is about searching for patterns of relationships that exist among data groups McDanile and Gates (2001). The data collected was edited for inconsistencies and entered in readiness for analysis. Data collected was mainly qualitative in nature. The qualitative data collected was analyzed using content analysis approach. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. Hussey & Hussey (1997). It involves observation and detailed description of objects, items or things that comprise the object of study. Content analysis is invaluable in describing the sample data in such

a way as to portray the typical respondent and to reveal the general pattern of responses. Content analysis was performed for the information obtained .The main purpose of content analysis was to study existing information in order to determine factors that explain a specific phenomenon. It enabled the researcher to analyze and interpret the meanings of the said words and beliefs. This approach was employed to make inferences by systematically identifying the themes and developing relationships with emerging trends. The approach was useful in revealing and understanding hidden issues under investigation.

The reliability and validity of the research instruments was determined by using face validity (subjective assessment). Two independent senior managers in CIC Insurance Group Ltd. who have worked with the organization for more than twenty years were requested to examine the items to assess the extent to which they answer the research objectives. Their suggestions on the improvement of the instruments were taken into account.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS.

4.1 Introduction

This chapter presents the results, findings and discussions from data analysis. The study determined the role of savings and credit co-operative societies in enhancing insurance market penetration at CIC Insurance Group Ltd. The findings are based on the responses from the interview guide and the information gathered on the research questions. The first section established the contribution of SACCOs in enhancing insurance market penetration at CIC Insurance Group Ltd. and the second section analyzed the challenges faced by CIC Insurance Group Ltd. in distributing insurance products through SACCOs in Kenya. Eight respondents were targeted and seven of them were interviewed thereby creating an effective response rate of 87.5% sufficient enough to answer the research objectives. The response rate is presented in Table 4.1.

Table 4.1: Response Rate

Category	Respo nse	Response Rate (%)
Respondents (departmental heads)	7	87.5%
Non-Response (departmental head)	1	12.5%
Total	8	100%

Source: The Researcher

4.2 General Information

The general information is organized in terms of the period of service the respondent has worked with CIC Insurance Group Ltd. The findings in Table 4.2 illustrates that 57% of the respondents have worked with CIC Insurance Group Ltd. for between 10 to 20 years; 29% having worked for

between 3 to 10 years and 14% have worked for more than 20 years. The study had targeted to source information from people who have been in the organization for a minimum of three years and who may have substantial information on the history of the organization and thus a 71% response from people who have worked with the organization for more than 10 years is a reflection of an adequate response target .The findings are presented in Table 4.2.

Table 4.2: Duration of Service by Respondents

Duration	Number	
	Frequency	Percentage
More than 20 years	1	14
10 to 20 years	4	57
3 to 10 years	2	29
TOTAL	7	100

Source: The Researcher

4.3 Length of Transacting Business with Co-operative Societies

To determine how long CIC Insurance Group Ltd. has been transacting business with SACCOs from the respondents involved in the study. Eighty six percent (86%) of all the respondents responded that the transacting is as old as CIC Insurance, while 14% indicated that the transacting is as old as CIC Insurance but the momentum picked up as from 2010 when the “sacocoassurance” concept was introduced. The “saccoassurance” concept was introduced by CIC Insurance in 2010 as part of its efforts in diversifying its market penetration channels. Thus from the responses it is evident that the insurance company has been in partnership with

SACCOs for as long as it has been in existence based on the shareholding of the company which is majorly the co-operative movement.

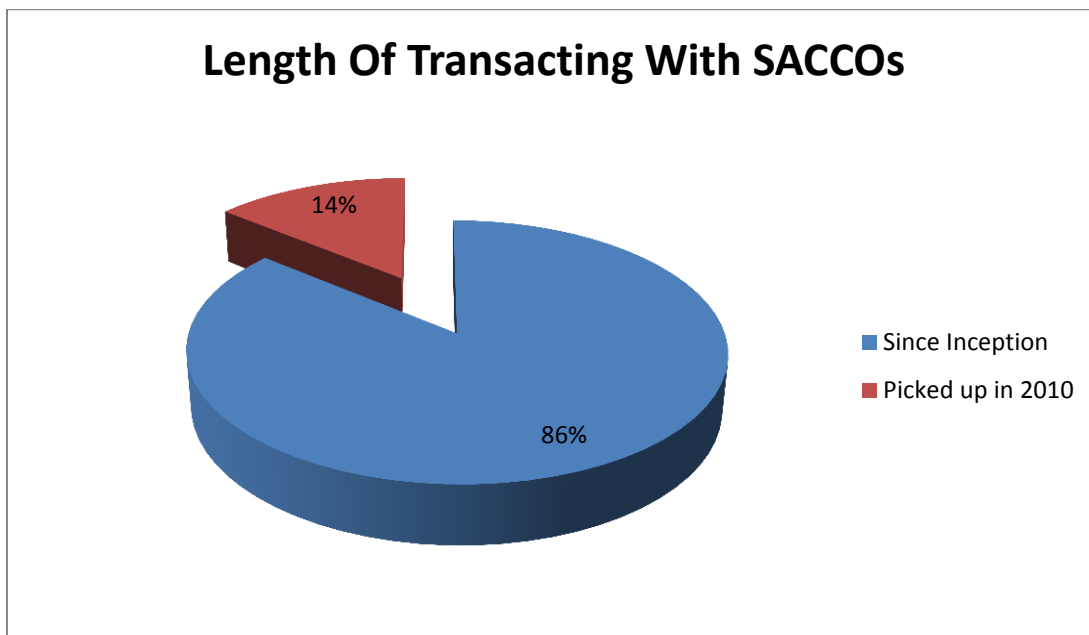


Figure 4.1: Length of Transacting Business with Co-operative Societies.

Source: The Researcher

4.4 General Findings

This section looks at the findings from the general questions of the study that were meant to give an overview of the company's initiatives in market penetration.

4.4.1 Initiation of the Concept.

All the seven respondents indicated that CIC Insurance Group had initiated this concept and proposed to their SACCO partners as part of the company's new avenues of reaching out to the market. Further all the respondents indicated that this concept was introduced around when the company started and it has undergone changes over time and firmly picked up in 2010 with the introduction of "Saccoassurane" officers. The company has a co-operatives division headed by

a general manager and the division has been going through transformations the last being the introduction of ‘saccoassurance’ department.

4.4.2 How does CIC Insurance and SACCOs Relate.

To determine the most successful business model for CIC Insurance and SACCOs from the seven respondents involved in the study. The findings revealed that distribution agreements and joint ventures (from four respondents) and distribution agreements only (from three respondents) were the most successful business models. In the distribution agreements the SACCOs agree to distribute the insurance company’s products to its SACCO members and their families in return of some management fee as SACCOs are not licensed to earn commissions. For joint ventures, the alliance benefits each party where the SACCOs distribute the company’s products while the company uses the SACCOs facilities in its business an example being Kenya Bankers SACCO which owns a property in Nairobi which has conference facilities (KBA Plaza in community area) and CIC Insurance uses the facility for its meetings and trainings.

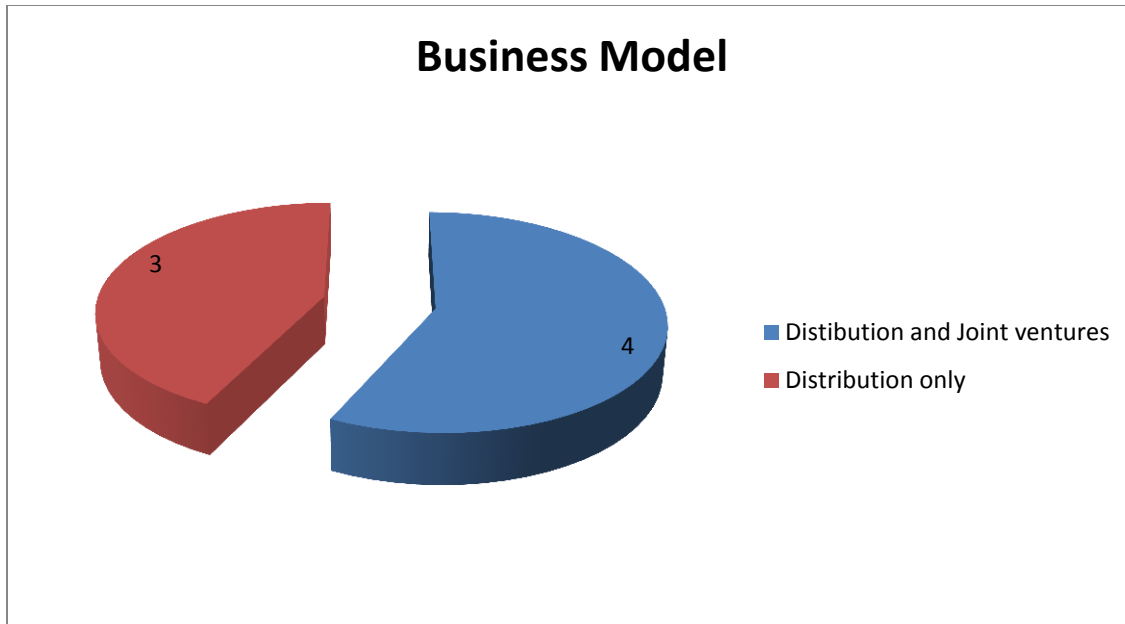


Figure 4.2: How CIC Insurance and SACCOs Relate.

Source: The Researcher

4.4.3 Key Factors Involved in Choosing a SACCO Partner

To examine the key factors involved in choosing a SACCO as a partner from all the respondents involved in the study. The findings revealed that relation with senior management of the SACCO (seven responses) was the most significant factor. This was followed by the sales and marketing capabilities of the SACCO (seven responses) and the number of members/branches of the SACCO (4 responses). The least factors were the nature of the co-operative (i.e., SACCO, housing co-operative, farmers co-operative, etc.) (one response) and the nature of existing partnerships (one response). A major concept in marketing management in the current competitive business environment is about relationship marketing where organizations deal with each other beyond the face of business thus the major drive for choosing a SACCO partner being the relationship with the SACCO management is a clear indication of the development of this

concept. The marketing capability of the SACCO and its branch network are important as geographic reach is a major determinant of any market penetration strategy.

Table 4.3: Key Factors Involved in Choosing SACCO as a Partner

Factors Involved in Choosing SACCO as a Partner	Responses	Percentage
Relation with senior management of the SACCO	7	29
Sales and marketing capabilities of the SACCO	7	29
Number of members/branches of the SACCO	4	17
Asset/market capitalization and reputation of the SACCO.	1	4
Alignment of culture and working style of the SACCO.	1	4
Nature of the co-operative (i.e., SACCO, housing co-operative, farmers co-operative, etc.) of the SACCO	3	13
Number/nature of existing partnerships.	1	4
Total Responses	24	100

Source: The Researcher

4.4.4 Number of Sacco Partners.

To determine the number of SACCO partners dealing with CIC Insurance Group Ltd. from the systems administrator involved in the study. The findings revealed that a total of 1,045 Co-operative societies deal and/or are insured with CIC Insurance with 621 of them being SACCOs. This is about 59 percent and it has been on the rise since the introduction of “saccoassurance”. A total of 651 SACCOs either insured or distributing insurance products for CIC Insurance forms a large enough portfolio to be utilized if fully exploited.

4.4.5 Market Penetration Strategy Formulation Practices

Respondents were requested to indicate the manner in which they formulate market penetration strategies at CIC Insurance Group Limited. The findings were presented in table 4.4. The results indicate that 86% of the respondents indicated that market penetration strategy formulation at CIC Insurance Group Limited involves the use of a bottom up consultative approach where management, board and a consultant are involved. Another 14% indicated that strategy formulation is through SWOT Analysis. The first response that best represented this findings are; “Usually there is consultation at all levels of the organization and input from the strategic business units managers. Thereafter an all inclusive meeting with a consultant to guide the process”. The second response that also demonstrated these findings was “Through consultation with the operational units followed by discussion by the top management and finally approved by the board”. The third response that demonstrated these findings was “We have two company's strategic 5 year plan in place that was formulated by all managers from level 3 upwards to top management by help of the external consultant strategic expert”. One respondent said that the strategy formulation is through bottom top approach based on SWOT analysis. Organizations should be careful not to treat the strategic planning process as a periodical stage managed affair. The involvement of lower level staff in the strategy formulation process implies that the process is all inclusive thus simplifying strategy implementation.

Table 4.4: Strategy Formulation Practices

Strategy Formulation Practices	Frequency	%
Using a bottom up Consultative approach where management, board , and a consultant are involved	6	86%
Using SWOT Analysis	1	14%
Total	7	100%

Source: The Researcher

4.4.6 How strategic plan with SACCOs capture the objectives of CIC Insurance Group Ltd.

The respondents were asked to what extent the strategic plan with SACCOs captures the objectives of the company. Findings in figure 4.4 indicated that a majority (71%o or five respondents) were in agreement that the strategic plan with SACCOs captures the objectives of the company. A further 29% (2 respondents) indicated that they were in agreement that the strategic plan with SACCOs captures the objectives of the company but the objectives have to change in the next strategic plan.

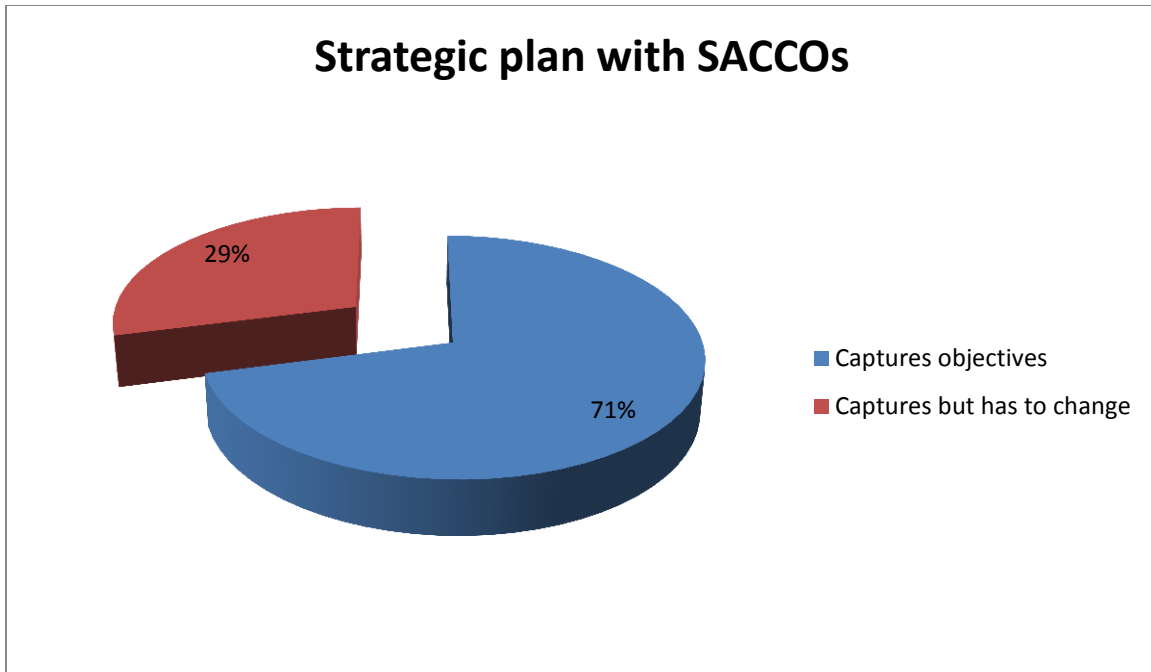


Figure 4.3: Agreement with Set Strategic plan Objectives.

Source: The Researcher

4.4.7 Products mainly distributed by SACCOs in Kenya.

To determine which insurance products CIC Insurance's partnership with SACCOs mainly distributes, the findings established that it was general insurance. Five out of the seven respondents indicated that it was general insurance while two respondents claimed it was all the company products. From the industry report CIC's general insurance products have experienced faster growth in premium income relative to the group life products. The use of SACCOs must have played a major role in this growth as the findings of the study indicated that the partnership with SACCOs has enhanced the distribution of mainly general insurance products.

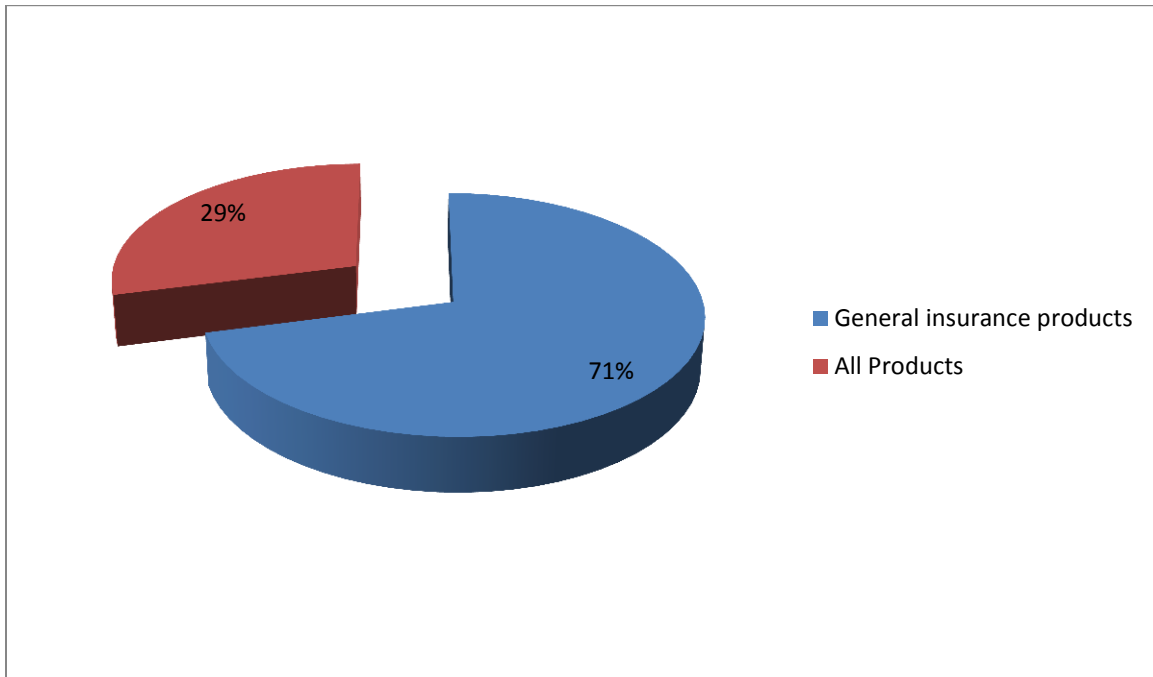


Figure 4.4: Products mainly distributed by SACCOs

Source: The Researcher

4.4.8 Most Potential Products in “Saccoassurance” in Kenya

To determine the most potential product distribution through SACCOs in Kenya, the findings established that Credit life and motor insurance (seven responses) each were the leading most potential products. This was followed by non-motor (domestic package, fire, theft, money, personal accident etc) (four responses), health and medical insurance (two responses), mortgage protection (two responses) and individual life (one response). The findings of the study indicate that the potential for future distribution is wide for diversified number of products with credit life and motor being the most potential.

Table 4.5: Most Potential Products in “Saccoassurance” in Kenya

	Responses	Percentage
Credit life	7	30
Motor insurance	7	30
Non-motor (Domestic package, fire, theft, money, personal accident etc)	4	17
Health and medical insurance	2	9
Mortgage Protection	2	9
Individual Life	1	5
Total Responses	23	100

Source: The Researcher

4.5 Objective Findings

This sections looks at the findings of the study on data collected that relates specifically to the objects of this study.

4.5.1 Premium Income from the Co-operatives and SACCOs between 2010 to 2012

To determine the premium income from the Co-operatives and SACCOs between 2010 and 2012 the findings are as presented below. The results present a clear view that the company’s annual growth in premium income from the co-operative division and the SACCOs department has been well above 30%. This growth is way above the insurance industry average annual growth which has been at around 18% (AKI, 2011). The premium growth at CIC Insurance Group Ltd. that is

above industry growth rate is evidence that SACCOs are a major player to the company's faster growth in the top line which has enhanced its market share.

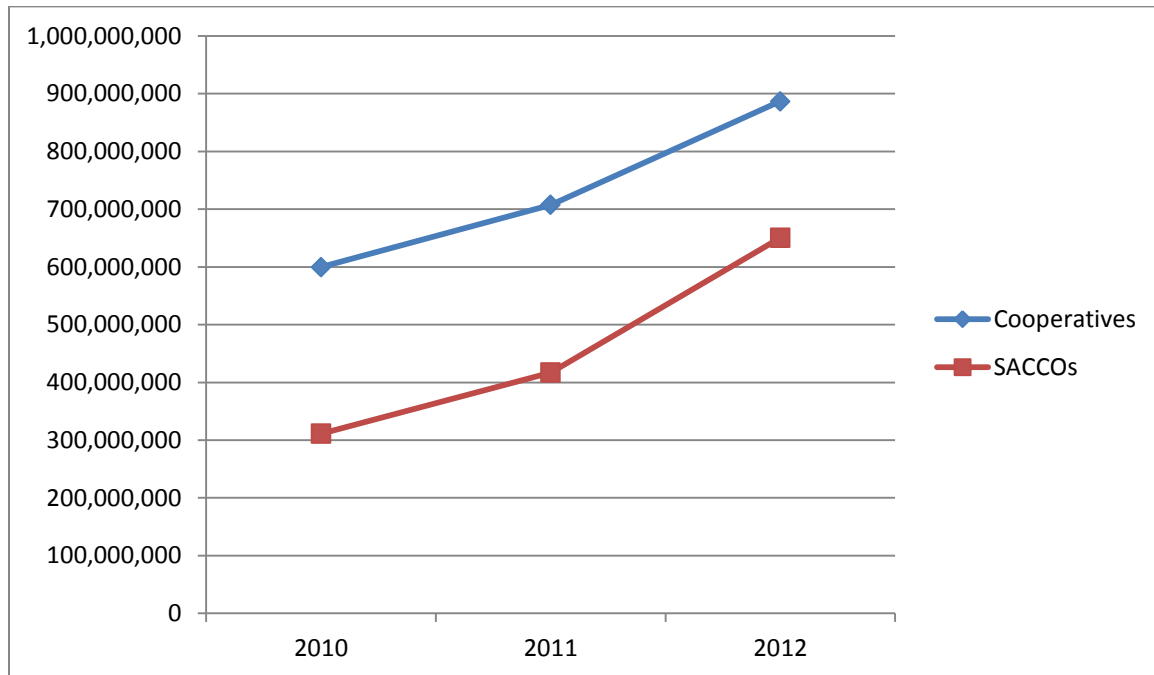


Figure 4.5: Premium Income between 2010 to 2012

Source: The Researcher

4.5.2 Benefits to CIC Insurance from the Partnership with SACCOs.

To determine the benefits CIC Insurance has been getting from its partnership with SACCOs from all the respondents involved in the study. The findings of the study indicated that marketing strategy, market penetration, diversification of income sources and establishment of rapid market presence (seven responses each) were the main benefits the partnership between CIC insurance and the SACCOs has provided . This was followed by customer satisfaction (four responses), enhanced income or returns (three responses) and to beat competition (two responses). The other role of SACCOs to CIC Insurance were provision of efficient services, sharing of services and

cost control (one response each). There has been a consistent growth in the company's premium income and market share which provides an indication of the SACCOs role.

Table 4.6: Benefits of “Saccoassurance” to CIC Insurance.

Benefits of “Saccoassurance”	Responses	Percentage
Marketing Strategy	7	17.5
Market Penetration	7	17.5
Diversification of income sources	7	17.5
Establish rapid market presence	7	17.5
Income/Returns	3	7.5
Customer Satisfaction	4	10
Competition	2	5
Efficient services	1	2.5
Share services	1	2.5
Cost control	1	2.5
Total Responses	40	100

Source: The Researcher

4.5.3 Key Factors for Emergence of ‘Saccoassurance’

To determine the key success factors for the emergence of insurance distribution through SACCOs in Kenya from the respondents involved in the study. The findings revealed that the partners had the potential to increase their market penetration (72%) as the leading factor. This was followed by the potential to expand their volume of sales (14%) and diversification of

revenue sources (14%). These responses are in agreement with the responses relating to the benefits derived by CIC Insurance in their partnership with SACCOs.

Table 4.7: Factors Influencing Emergence of “Saccoassurance”

Factors Influencing Emergence of “Saccoassurance”	Distribution	
	Frequency	Percent
Market penetration	5	72
Increased revenue	1	14
Diversification of revenue sources	1	14
Total	7	100

Source: The Researcher

4.5.4 Other Gains Associated with SACCOs

To determine the other gains associated with SACCOs at CIC Insurance in Kenya from the respondents involved in the study. The findings revealed that change in consumer behavior was the most significant factor together with macroeconomic impacts (e.g., low interest rates on loans, liquidity issues, loan assurance) while the least were further changes in regulation and taxation.

Table 4.8: Other Gains Associated with SACCOs

Other Gains from Saccoassurance	freque ncy	percen tage
Change in consumer behavior	3	43
Macroeconomic impacts (e.g., low interest rates	3	43

on loans , liquidity issues, loan assurance, etc).		
Changes in regulations and taxation.	1	14
Total	7	100

Source: The Researcher

4.5.5 Growth Prospects of “Saccoassurance” in the Kenyan financial sector

To determine the growth prospects of the “**Saccoassurance**” concept in the Kenyan financial services sector, the findings established that majority of the respondents agreed that it was high (71%) or 5 respondents while 29% or 2 respondents claimed that it was moderate due to regulatory challenges. The discussions in literature review identified regulation as being the top challenge in insurance distribution and the findings of the study give an indication that the growth prospects for SACCOs and business partners is high except the regulatory challenge.

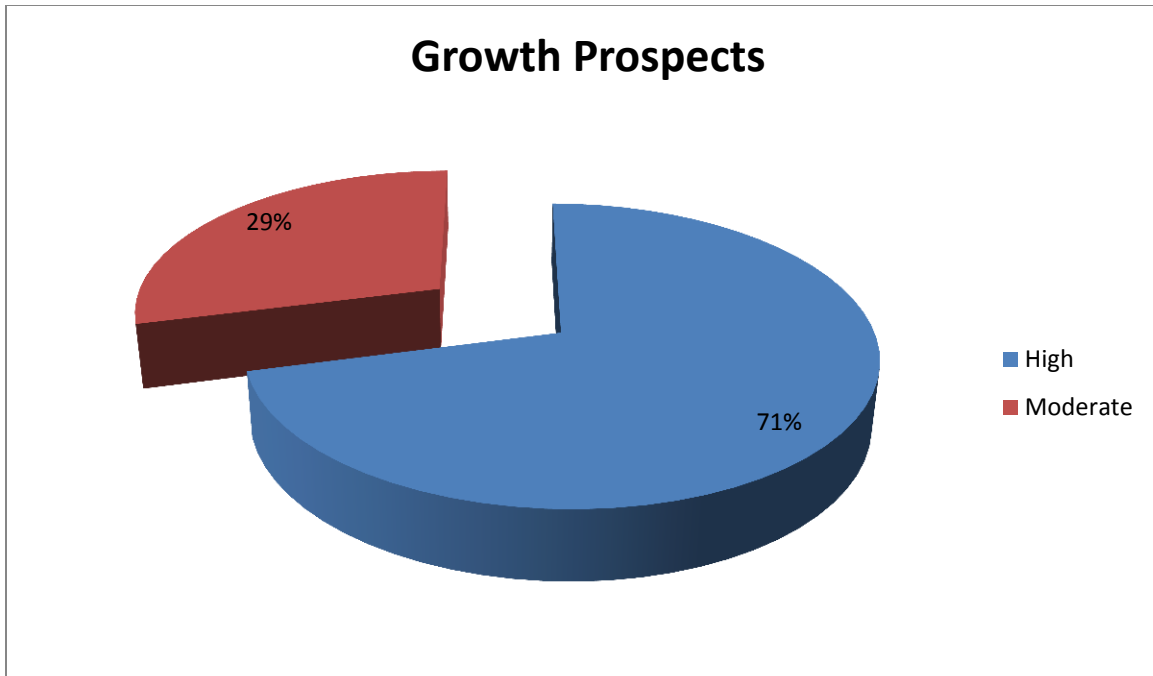


Figure 4.6: Growth Prospects of “Saccoassurance” in the Kenyan financial sector
Source: The Researcher

4.5.6 Challenges of Using SACCOs in the Kenyan Context.

To determine the impediments to the success of “Saccoassurance” in Kenya, the findings revealed that regulatory framework (seven responses or 32%) was the leading challenge as all the respondents mentioned the regulatory challenges. The regulatory challenges faced by the insurance industry’s quest for more in terms of insurance distribution is hindered by the regulator where IRA has a complete control of licensing commission earning intermediaries. This was followed by the Kenyan culture towards insurance which has generally been a negative perception about insurance and competition from the brokers and agents who have been the backbone in the industry’s distribution channel (six responses each or 27% each). However, the least

challenges came from resistance to change and limited SACCO net work for reaching out to the masses with 9% and 5% of the responses respectively.

Table 4.9: Challenges of Using SACCOs in the Kenyan Context.

Challenge	Responses	percentage
Regulation	7	32
Kenyan Culture	6	27
Competition from brokers/agents	6	27
Resistance to change	2	9
SACCO networks	1	5
Total responses	22	100

Source: The Researcher

4.6 Findings and Discussions.

This study sought to establish the role of savings and credit co-operative societies in enhancing insurance market penetration at CIC Insurance Group Ltd. In this section, the researcher provides a summary on the findings of the research as compared to the findings in the literature review. The research findings and discussions are based on the conclusions drawn from the research objectives.

4.6.1 Findings on the Role of SACCOs to CIC Insurance Group Ltd.

Distributing insurance products through SACCOs is a popular business model at CIC Insurance Group Ltd. as indicated by most of the respondents. The findings revealed that CIC Insurance Group Ltd. had the potential to increase their market penetration and also using SACCOs was a clear marketing strategy (7 responses each). The research findings indicate that SACCOs have played a major role in enhancing market penetration through enhanced premium growth and market share at CIC Insurance Group Ltd. A summary of industry statistics indicate that CIC Insurance Group's market share has increased by over 62% for general insurance (from 5.66% in 2010 to 9.18% in 2012) and over by 20% for group life insurance (from 21.29% in 2010 to 25.29% in 2012) (AKI, 2012). From the findings of the study "saccoassurance" was introduced in 2010 and it has played a bigger role in enhancing a faster market penetration through premium and market share growth. From the literature review the insurance industry has been growing by an average 18% (AKI, 2011) while from the findings of this research the premium income from SACCOs at CIC Insurance grew by 34% in 2011 relative to 2010. In 2012 seven insurance companies recorded a negative growth compared to 2011 (AKI, 2012), this meant an automatic decrease in market share for those insurance companies. On the other hand the market share for CIC Insurance Group Ltd. has been on the rise between 2010 and 2012. The increase in the market share and premium growth for the company is attributed to the company's adoption of new ways for distributing its products. The findings of this study based on the responses from all the seven respondents is that the main role of using SACCOs is to enhance market penetration through enhanced market share and premium growth. The continuous growth in premium and market share by

CIC Insurance is a clear reflection that SACCOs have played a vital role in enhancing insurance market penetration.

Further the study also found out that the other key role that SACCOs have played at CIC Insurance in enhancing market penetration was the potential to establish rapid market presence and diversification of revenue sources (7 responses each). For CIC Insurance Group and the SACCOs, the insurance partnership is a means of product and channel diversification and a source of additional income. With the entire insurance industry in Kenya competing for the business through insurance brokers and agents, diversification of income sources in unexplored channels is a clear blue ocean strategy adopted by CIC Insurance Group by creating a new market and distribution channels for its product. The adoption of this strategy has assisted the company to achieve faster growth in its top line from a premium of Kshs. 4.367 in 2010 to a premium of Kshs. 8.659B in 2012 for its general business and group life business respectively. This indicates that the insurance company's speedy search for new distribution channels and in particular SACCOs has played a major role in enhancing the group's growth in premium income.

Other findings of the study on the role of SACCOs were high income or returns (3 responses), customer satisfaction (4 responses) and outdoing competition (2 responses). The insurance company gets access to the SACCO's large loyal customer base and improved geographical reach without additional costs of building up a wide agency network (Manocha, 2009). SACCOs in Kenya are spread throughout the country a good example being the teachers SACCOs. This SACCOs have played a major role in reaching its

members across the country where the insurance company may not be able to open a branch office. This also leads to high returns as the operation costs will be minimal as opposed to opening a branch office. The study further found that geographical reach is another major role that SACCOs have played in enhancing insurance market penetration at CIC Insurance Group Ltd.

4.6.2 Findings on the Challenges of ‘Saccossurance’

To determine the challenges in using SACCOs for market penetration at CIC Insurance Group Ltd., the respondents established that the leading cause was legal and regulatory framework (All seven respondents). Regulation has been one of the major impediments to the growth of insurance across the globe. It is only recently countries such as the US and Japan, have begun allowing banks to expand into the field of bancassurance following regulatory changes that removed constraints to possible expansion across industries (Agrawal, 2002). The regulatory framework as it is now does not allow SACCOs to earn commissions on the business placed to insurance companies, this on its own is a major hindrance to the zeal the SACCOs would have had given an opportunity to diversify their income channels. Whenever deregulation is discussed by researchers, it is always found that benefits exist for the domestic markets, whether from increased competition that forces incumbent players out of the market, or through added product innovations that are brought to the marketplace.

The study also found that the Kenyan culture and competition from the insurance brokers and agents were the other major challenges (Six responses each). Among the issues identified as

contributing to the failure of strategic alliances is the lack of knowledge on insurance matters and the negative Kenyan culture and perception about insurance. Mis-selling of insurance products and in particular by life agents has created a negative perception about the industry where insurance professionals are at times branded as con men. Brokers and agents have played a major role in the Kenyan insurance market building alliances and long term relationship with clients, thus the introduction of SACCOs to distribute insurance products is bound to face stiff challenges from the intermediaries. This stiff challenge from the insurance brokers and agents is bound to affect negatively the investments by SACCOs in insurance distribution thus affecting their role in insurance penetration in Kenya.

Further the study also found that the other challenges included resistance to change and limited SACCO networks (with two and one responses respectively). Alliances built between agents or brokers and their customers may be difficult to break and as such clients would usually not be ready to change their intermediary from say an insurance broker who is presumed to have a larger comprehension of insurance matters to a SACCO which is assumed to have very little insurance capacity relative to the brokerage firm. Further not all SACCOs have a country wide reach, these is a challenge to CIC when distributing insurance products through the SACCOs as they may not be able to reach each intended market segment.

4.7 Chapter Summary

The survey findings suggests that majority of the respondents agree that the savings and credit co-operative societies have played a major role in being a tool for reaching out to a wider market for CIC Insurance Group Ltd. The reason for implementation of this strategic partnership with SACCOs is the potential to increase their market penetration and a marketing strategy as the leading factors as evidenced by an increased premium and market share growth. This was followed by the potential to expand their volume of sales and diversification of revenue sources. Further the study also found that customer satisfaction and beating competition as some of the roles SACCOs are playing at CIC Insurance Group. Among the challenges for implementing this concept, regulatory framework was the leading challenge as each respondent mentioned regulation from IRA as being the biggest hindrance to the development of the alliances between SACCOs and CIC Insurance. This was followed by the Kenyan culture towards insurance in particular the negative perception of the industry by the general public and competition from the brokers and agents who are well established in the industry. However, the least challenges came from resistance to change and limited SACCO network.

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction.

This study sought to establish the role of savings and credit co-operative societies in enhancing insurance market penetration at CIC Insurance Group Ltd. In this section, the researcher provides a summary on the findings of the research and the recommendations for further improvement on the role of savings and credit co-operative societies in enhancing insurance market penetration at CIC Insurance Group limited in the academic field. The research is concluded on the basis of the conclusions drawn from the research questions.

5.2 Summary and Findings

From the study, CIC Insurance has been dealing with SACCOs for as long as the company has been in existence though the concept took more up more prominence in 2010 when the company started the “saccoassurance” unit. Majority of respondents (71%) had worked for CIC Insurance for more than 10 years while the other 29% had worked for between three to ten years. This shows that all the respondents have a wealth of experience and knowledge about the operations and the strategies of the company. All the seven respondents agreed that CIC Insurance had initiated the concept by approaching their SACCO partners and the best mode of relation was through distribution channels.

The research findings indicate that the insurance company has concentrated on building relationships with SACCOs. Relationship with senior SACCO management and sales and marketing capabilities of the SACCO (seven responses each) were the key factors put in

consideration when choosing a SACCO partner. The findings further revealed that the company has been dealing with 1,045 co-operative societies with 621 of them being SACCOs. This large number of SACCOs forms a large portfolio that the company is utilizing in market penetration. The company formulates its market penetration strategy through a consultative model where bottom up consultative approach is used (six responses) in addition to SWOT analysis (one response).

CIC Insurance premium growth has been on an upward trend with general insurance taking the lead where general insurance (71%) are the products mainly distributed through SACCOs with all the company products (29%) being also distributed. The future development and distribution of the products are diverse with credit life and motor (seven responses each) being the products to push in the future. The potential for the growth of ‘saccoassurance’ is high (71%) and regulation was cited as the main hindrance to the expected growth of this concept (29%).

The findings of the study indicate that there has been an above industry growth in premium income from the co-operatives and SACCO markets at CIC Insurance between 2010 and 2012 and the major role played by SACCOs at CIC Insurance are marketing strategy, market penetration, diversification of income sources and rapid market presence (seven responses each). Other benefits of using SACCOs are customer satisfaction (four mentions) efficient services, shared services and cost control (one response each).

From the research findings regulation (seven responses) is the major challenge to the development of this concept. This was followed by the Kenyan culture and competition from the

brokers and agents (six responses). However, the least challenges came from resistance to change and limited SACCO network.

5.3 Conclusion

Based on the findings, the researcher concludes that SACCOs have played a significantly role in enhancing CIC Insurance Group's market penetration through enhanced market share and premium growth in the insurance industry. The reason for implementation this concept is the potential to increase their market penetration, the potential to expand their volume of sales and diversification of revenue sources. The low growth of this type of partnership is attributed to the stringent regulatory framework as the leading challenge. This was followed by the Kenyan culture and competition from the brokers and agents. However, the least challenges came from resistance to change and limited SACCO network.

The implication of the findings of this study points out to the major role SACCOs can play in the insurance industry. The compatibility of micro insurance and co-operative principles is an unexplored avenue through which the insurance industry and in particular CIC Insurance Group Ltd. can enhance its market share. Further the findings of the study have implication on the need to review our regulatory frame work which is a major hindrance to the growth of this concept. The review of regulations by IRA will be an encouragement for new entrants into the insurance distribution channel.

5.4 Recommendations

Johnson & Scholes (1997) says that most organizations have developed in ways which have resulted in limited coverage of the market by their products. Careful thought needs to be given to the way in which an organization positions its products in the markets which inevitably means selectivity of market coverage. It is in this context possibly that “saccoassurance” could well be an appropriate choice for CIC Insurance Group to increase their stable source of income with relatively less investments in the form of new infrastructure. Based on the findings and conclusions of this study, the researcher makes the following recommendations.

To continuously enhance market penetration, high returns, increase sales volumes and reduce risks through product diversification. The researcher recommends that CIC Insurance Group Ltd. and SACCOs should have long term partnership agreements (5 to 10 years, renewable on expiry). This long term agreements will allow each party time in formulating its own mid term and long term strategies geared towards meeting common objectives. They should also own joint subsidiaries for insurance distribution, maintain good relations as well as provide high quality service to the customers to enhance the sustainability of the partnerships.

The industry should be flexibly regulated to encourage new entries and more competition even if it means that that some players will be forced out of the market. Flexible regulation can bring about product innovations into the market place. Flexibility in regulation should also encourage established foreign SACCOs to gain access to local markets where they can employ their expertise in the field of “Saccoassurance” to facilitate growth within the industry by enabling local firms to apply tried and tested methods from abroad.

5.5 Limitation of the Study

The study findings accuracy was limited to the extent to which the respondents were honest in responding to questions. Given the sensitive nature of data collected, there may have been likelihood of answering questions in a certain way so as to avoid giving away crucial and confidential strategic information. This was despite the assurance that the study information would be used in a confidential manner. In addition, the findings may not be generalized to other sectors because the structure of other sectors is different from the insurance industry's in terms of regulations and structure. For instance, the laws set out by IRA only impact on organizations in the insurance sector. From a contextual standpoint, the current study fails to demonstrate whether other insurance providers face similar challenges. Major conceptual gaps in current study are attributed to the fact that the study could not establish empirically the statistical relationship between the factors and success of the outcome for using SACCOs as a market penetration strategy.

5.6 Suggestions for Further Studies

The researcher recommends that a replicate study be done on other financial institutions in the financial services sector so as to find out how other institutions like the banking industry is benefiting from the existence of SACCOs through initiatives like agency banking. The researcher further recommends that a similar study be done on other institutions for the purposes of benchmarking and it should target the role of co-operative societies to the insurance industry in Kenya.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

University of Nairobi,

September 2013

Dear Respondents,

I am a student in the school of Business, University of Nairobi working on a study '**The role of savings and credit co-operative societies in enhancing insurance market penetration. A case of CIC Insurance Group Ltd.**

You have been selected to participate in the study. I would be grateful if you would take some time and plan for a meeting to enable me interview you at your convenience. The information you give will be beneficial to assist giving innovative knowledge of the situation of insurance penetration in collaboration with Savings and credit cooperative societies, the information you provide will be considered confidential and your response will not be exposed since the research is for purely academic purposes.

Thank you for your time.

Sincerely,

Andrew Murunga.

APPENDIX II: INTERVIEW GUIDE.

1. How long
 - a) Have you worked for CIC insurance Group Ltd.?
 - b) Have you been transacting business with Co-operative Societies?
2. Who initiated the “saccoassurance” concept?
3. How do you relate to your SACCO partner?
4. What factors are important when choosing SACCO partners?
5. How many SACCO partners are involved?
6. How do you formulate market penetration strategies?
7. To what extent do you think the strategic plan with SACCOs captures the objectives of the company?
8. Which insurance products does the partnership with SACCOs mainly distribute in Kenya?
9. Which products have the most potential in “saccoassurance” in Kenya?
10. Any indication on premium income growth between 2010 & 2012?
From:-
 - a) The co-operative sector.
 - b) The SACCOs sub sector.
8. What are the benefits to CIC from the partnerships with SACCOs?

12. What are the greatest factors that have influenced the emergence of “saccoassurance” in Kenya?
13. What other gains do you think, if any are associated with SACCOs?
14. How do you find the growth prospects of this concept in the Kenyan financial sector?
15. According to you what are the challenges of using SACCOs in the Kenyan context?