CHALLENGES IN THE ADOPTION OF TAKAFUL INSURANCE IN KENYA

BY

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

OCTOBER 2013

DECLARATION

This research project is my original work and has not been presented in any other university or college for the award of any degree or diploma.

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

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ACKNOWLEDGEMENT

I thank the Almighty God for the opportunities He has granted me throughout my life. This course would not have been successful and possible had it not for the valuable support, assistance and guidance from my family, friends, colleagues and classmates for the numerous discussions, insights and assistance during my MBA programme. I am grateful to all of them for their support, encouragement and understanding. I am obliged to mention a few of them to acknowledge their special contribution.

First I would like to thank my supervisor, Ms Caren Angima for sharing her valuable time, contribution and guidance during my entire period of the study and perfecting my skills in research. Secondly, special thanks to Hassan Bashir and Hassan Omar for their insights particularly on Takaful insurance and my appreciation to Ms. Felicita Kagwanja for enabling me attend my lecturers and discussions despite the hectic work schedules.

Last but least special gratitude goes to my children Maynard Ochieng and Dyllan Omondi for their patience during late night and early mornings that I have worked and compile this project. May I inspire you to excel.

Despite all the ups and down, working on this project has been a great learning experience.

DEDICATION

I dedicate this work to my late father-Sylvan Ochieng Obumba and late mother-Jane Adhiambo.

Tribute are due to my late grandmother-Dorsila Ayua for taking care of me at tender age and laying such a solid foundation for my family and me.

My beautiful wife, Reginah can never be far from my thoughts. Thanks for all the support and love, you make life beautiful.

My sons, Maynard and Dyllan-I cherish you and I am forever proud of you. I encourage both of you to complete the work I had began.

My immediate family members: Julius, Daisy, Millicent and Andrew- I am extremely proud to be part of you and thanks so much for your unwavering and dependable support.

ABSTRACT

The study investigates the challenges in the adoption of Takaful insurance in Kenya. Takaful insurance was introduced in Kenya in the year 2011 when the regulator (IRA) approved licence for Takaful Insurance of Africa to start underwriting Takaful business. From its inception, Takaful insurance has been faced with numerous challenges that hinder its penetration and growth. The objectives of the study were to determine the challenges hindering adoption of Takaful insurance in Kenya and measurers to be adopted in overcoming these challenges. A descriptive survey design was used; data was collected from respondents using semi-structured questionnaires and data was analysed using content analysis. Tables and charts were used in presentation of data. From the findings it is clear that lack of public awareness and chronic shortage of human capital are the greatest factors that impede adoption of Takaful insurance within the Kenyan Market. The study recommends that Takaful operators, IRA and other stakeholder e.g AKI should embark on vigorous campaign to create awareness of existence of Takaful and remove the myth that Takaful insurance only belong to Muslim community. This will make the conservative public to be informed and make right decisions and choices with regard to their insurance needs. The study recommends further research on growth opportunities and emerging issues facing Takaful insurance in Kenya. This will provide an overall view on the issues that one needs to know when considering investing or adopting Takaful as a business model in the insurance industry.

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GLOSSARY/ACRONYMS

Fatwa:	Brotherhood/togetherness
Fiqh:	Islamic jurisprudence.
Fuqaha:	Muslim jurist.
Ghabn:	Fraud or deception that permits injustice.
Gharar:	An Arabic word for uncertainty.
Ijtihad:	Intellectual interpretation of original sources of Islam.
Kafalah:	To help or assist one another.
Maiser:	An Arabic word for gambling.
Muamalat:	Islamic teachings especially in Madrasas.
Mudarabah:	An investment partnership.
Quard-Hasam:	Long term investment similar to treasury or corporate bonds
Riba:	An Arabic word for interest.
Skuks:	Investment instruments similar to equity
Tabarru:	To donate for the benefit of others.
Zakat:	An obligatory charity imposed upon rich people in helping the poor

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

There are various scholars who have tried to define the term insurance. According to Archer (2009) defines insurance as an economic institution that allows the transfer of financial risk from an individual to a pooled group of risks by means of two-party contracts. Another leading business columnist (Taylor, 2010) refers to insurance as a promise of compensation for specific potential future losses in exchange for a periodic payment. Therefore, the concept of insurance means co-operation among a group of people to reciprocally guarantee each other. It means giving surety to each other or holding responsibility to help each other in case of unexpected or untimely accidents or events that cannot be met financially by any one individual separately.

The concept of insurance has been around in Africa for a long time. Members of a community pooled together resources to create a “social insurance fund”. The “premiums” ranged from social inspiration to material support or other payments in kind from the fund “drawings were made out” to support a few unfortunate members exposed to perils. Modern insurance can trace its beginning to the 1600s, when British merchants and ship owners began to meet at coffeehouse near Lombard Street in London. The coffee house was called Lloyd’s which later became a renowned name in the insurance cycles. These individuals were known as underwriters and are the forerunners of the well-known insurance association, Lloyd’s of London which can insure almost any risk-from the ships at sea and land-based wars to the launching of satellites (Babbel and Klock, 1994). These developments gave birth to what we currently refer to as conventional or commercial insurance and for the past three centuries, insurance has evolved further from mutual assistance and mutual risk sharing and propelled towards shareholder value and profit maximization. While the conventional insurance contract is one of transferring risk from the insured to the insurer for premium, that

is, one of risk trading, the Takaful contract is based on the Islamic principle Tabaru, that is, a contract of self-insurance, or self-guaranteeing among members of group.
However, the history of development of commercial insurance in Kenya is closely related to the historical liberation of Kenya as a nation. With the conquest of Kenya as a British colony, settlers initiated various economic activities, particularly farming, and extraction of agricultural products. These substantial investments needed some form of protection against various risks exposures. British insurers saw an opportunity in this, and established agency offices to service the colony's insurance needs. Prosperity in the colony soon justified explanation of these agencies to branch networks with more autonomy and expertise to service the growing insurance needs. By independence, most of the branches had been transformed to full fledge insurance companies. Since then, insurance industry has flourished in Kenya Maxon (1993). However, emergence of Takaful insurance can be traced back to Sudan in years 1979. This was set up to fulfil the conditions of the ''Fatwa'' issued by the Shariah board of the Faisal Bank. Consequently, the Faisal Islamic Bank (Sudan) established the first Islamic insurance company in the world. The concept of Takaful then spread to other parts of Islamic countries. The legal basis for the establishment of Islamic insurance operators was the Takaful Act which was first enacted in 1984 in Malaysia (Obaidullah, 2005). Today there are many Islamic insurance operators in Muslim as well as non-Muslim countries. In the Muslim countries, there are Takaful operators in Bahrain, Jordan, Kuwait, Sudan, Egypt, Saudi Arabia, the United Arab Emirates and Qatar while in non-Muslim countries Takaful operators are in United Kingdom, the United States of America, Australia, Luxembourg, Singapore, Ghana, Trinidad, Kenya and Tobago.

In view of this, the government amended Insurance Act (1985) to set up Insurance Regulatory Authority (IRA) to regulate, promote and grow insurance industry in Kenya. The insurance (amendment) Act number 11 of 2006 came into force in the year 2007 and with the emergence of East African Common Market that came into effect on 1st July 2010 is expected to herald a new dawn for the insurance industry. With an expanded market of 126 million people, the insurance industry is expected to benefit greatly both in terms of volume of business underwritten and capacity to undertake risks (AKI, 2011). However, majority of the insurers have adopted conventional insurance as the basis of their business model and thus leaving the Muslim population and those individuals that perceive Takaful as the best alternative to conventional insurance with limited options of risk management.

1.1.1 Conventional Insurance

Conventional or commercial insurance has been the true identity of insurance industry and popular among majority of people around the world (Schich, 2008), this type of insurance has evolved further away from mutual assistance and mutual risk sharing (with a few notable exceptions of mutual now numbering more than 260 globally), and propelled towards shareholder value creation and profit maximization (Ayub, 2010).

Conventional insurance has now developed to an extent where it constitutes a big chunk of the financial sector. However, conventional insurance has continued to experience enormous challenges that still stifle its penetration and growth and more so in the developing world unlike Europe and America where the penetration level is high. As financial services products evolve, including complex derivatives and other risk hedging mechanism in response to changing business needs, many insurance companies are keen to explore innovations concepts and alternative risk mechanism that can address new types of hazard and perils as they emerge. Emergence of new technologies and the interaction of new business process for instance, genetic engineering, laser surgery and artificial intelligence have given rise to unintended outcomes and new type of risks. In this way, insurance must continue to evolve in order to remain relevant and develop appropriate mechanism to address these risks in an environment of accelerated human and economic development (Young, 1996).

Wekesa (2010) posited that in as much as conventional insurance continues to evolve there is perceived credibility crisis of the industry in the eye of the public with regard to settlement of claims and scope of covers for the various products that they sell. Ramadhan (2009) did confirm that lack of adequate knowledge has compounded the situation resulting to low penetration of insurance and while on other hand (Hagel and Davison, 2010) have blamed majority of insurers on the basis that they do not prioritize investment in training, career development and recruitment to enhance their human resource competitiveness and thus affecting their service delivery. As a result, the current problems facing the industry will not be eliminated if paradigm shift is not adopted to address these challenges both in conventional and Takaful insurance.

1.1.2 Takaful Insurance

Conventional insurance contain certain practices and principles that are not permissible in Islam. Many have written on insurance in Islam, discussing what may be permissible or not. (Talah, 2009) defines Takaful as an Arabic verb ‘’Kafalah’’ which means to help one another or mutual guarantee and thus Takaful technically refers to shared responsibility among the interested parties. In addition, Fuqaha (Muslim jurist) have dealt with the issue in Fiqh (Islamic Jurisprudence) conferences and academies. The majority of Fuqaha agree that commercial or conventional insurance which is practised worldwide is not Shariah compliant.

According to Shariah rules Muslim people have to respect and never violate a consensus reached by majority of Fuqaha in any new issue that needs Ijtehad (most Fuqaha in minority camp), who showed no objection to conventional insurance, have in fact thought that there can be no possible Islamic substitute to it and were keen to emphasize the benefits of insurance as such all modern societies ought to develop a common fund with a view to pay the unfortunate or disadvantaged from the fund (Jaffer,2006). In essence, Takaful acts as the conduit for providing financial benefits in the event of a misfortune through the various types of Takaful products in which individuals as well as corporations participate. Takaful products provide the protection needed. As consideration for using these products, Takaful participants whether individuals or corporate, pay Takaful contributions (Tabarru) to the respective Takaful funds managed by the operators. Contributions to family products are credited into the Family Takaful Fund whilst contributions for general products are paid into the General Takaful Fund. Essentially, these Takaful funds belong to all participants. The basic function of the funds it to provide financial assistance in the form of claims benefits to any participants who suffer a loss due to a defined misfortune (Ali, 2008). Takaful assumes the role of providing assistance to participants who suffer losses. Claims benefits are paid from the pooled contributions accumulated in the respective Takaful funds.

The current Takaful practice uses two main types of contracts, these are Family Takaful which is a long term saving and investment programme with a fixed maturity period (over one year) while General Takaful are basically contracts of joint guarantee, on a short-term basis (normally one year) between a group of participants to provide mutual compensation in the event of defined loss (Fisher, 1999). The two types of Takaful insurance are further divided into two major models, Mudharabah and Wakala model. Mudharabah as posited by (Billah, 2001) is defined as a financing where one person provides the capital while the other party contribute business skills and both parties mutually agree not only to share profits on a pre-agreed proportion but also losses that they suffer while Wakala model is an ʽʽAgencyʼʼ model that treats the Takaful operators as an agent of the participants tasked with the administration of Takaful fund for which it is compensated at fixed fee. Kamsam (2006) did point that the challenges of Takaful are similar to those found in conventional insurance which included credibility crisis, perceived ignorance from the public with regard to philosophical foundation of insurance and inabilities to innovate Family Takaful products that can meet any religion and cultural obligations.

1.1.3 Insurance industry in Kenya

There are 45 licensed insurance companies in Kenya as per the Association of Kenya Insurers (AKI) Insurance Annual Report, 2011. The industry is regulated by Insurance Regulatory Authority which was established after amendment of Insurance Act, CAP 487 in 2006 (AKI, 2011) making it autonomous and regulator of insurance industry. There is also a regulatory body of the insurers-Association of Kenya Insurers (AKI) and the professional body of the industry is the Insurance Institute of Kenya (IIK), which deals mainly with training and professional education. Of the 45 licensed insurance companies at the end of 2011, twenty companies wrote non-life insurance business only, nine wrote life insurance business only while fifteen were composite (both life and non-life). During the year 2011, there were 137 licensed insurance brokers and 3,076 insurance agents. Other licensed players included 106 investigators, 57 motor assessors, 18 loss adjusters (AKI Report, 2011).

From (AKI Report, 2011) the gross written premium by the industry was Kshs. 91.60 billion compared to Kshs 79.06 billion in 2010, representing a growth of 15.9 %. The gross written premium in non-life insurance was Kshs 60.67 billion (2010: Kshs 52.35 billion) while that for life insurance business was Kshs 30.93 billion (2010: Kshs 26.71 billion). Non-life insurance premium grew by 15.8 % while life insurance premium and contributions from deposit administration and investment /unit linked contracts grew by 15.8 %. Kenya is insured at penetration rate of 3% for a population of 40 million while India at 4% penetration for a population of over a billion and contrasts with South Africa with a penetration of 16% for a population of 50 million. This shows the importance of having an insurance sector which can add more to economic development of the country, which signifies a huge potential for the insurance business in the country. In the same period one company (Concord Insurance Company) was placed under statutory management after the regulator noted that it was unable to meet its obligations.

Takaful Insurance of Africa was officially launched on 24th March 2011 after the regulator (IRA) issued a license to begin transacting Takaful business. According to AKI report of 2011, it wrote gross premium of Kshs.178 million representing 0.29% of market share. This is a relatively new business model that was first introduced in Kenya in 2011 after the country noted a tremendous growth in the Islamic banking industry. Since its adoption in the country, there are five Takaful operators which Include Takaful Insurance of Africa, Cannon Insurance, Metropolitan Life, Jubilee Insurance and UAP Insurance who have opened a window to deal in Takaful Insurance before establishing a full fledge subsidiary. In addition, Kenya-Re has also shown interest in growing their business through establishment of Retakaful Department entirely dedicated in reinsuring Takaful operators risks (Business Daily, 2012). Takaful entry to the already saturated insurance market is not only going to increase competition but offer an alternative to conventional insurance which has continued to dominate the insurance market in Kenya. However, Takaful operators will not be immune to challenges facing insurance industry and therefore, they must demonstrate their competitive edge against the conventional insurance by developing products that are relevant to the needs of their target market (Abdikadir, 2011).

1.2 Research problem

Conventional or commercial insurance has been criticized for its exploitative nature of making profit. Islam is never objected to profit per se, nor did Plato or some other ancient Greek philosopher. Yet, Islam has strong objection to practices impermissible under Shariah. A consensus exists among majority of Islamic scholars and Fuqaha (Jurist) that conventional insurance is strictly prohibited because it embraces Riba (Interest) in transaction, Gharar (uncertainty due to combination of unknown and doubtful) and elements of Maisir (Gambling) in contracts Siddiqi (1985). Eliminating all practices irreconcilable with shariah from commercial insurance cannot be accomplished without structural changes in insurance company contracts, operational modes, types of investment transactions and targets Abdel (2011). (Kamsam,2006) while conducting a study on impediments faced by Takaful players in Malaysia noted that Takaful has the same challenges that face conventional insurance which range from credibility crisis to lack of innovation particularly on Family Takaful.

Takaful insurance was designed to address objections encountered in conventional insurance and enhance Muslim brotherhood in service provision in the insurance industry and increase the penetration level which currently stands at 3% (AKI report, 2011). From the year 2009, Kenya financial sector did accept Islamic financial system to run simultaneously with traditional financial system and Central Bank of Kenya was the first institution that issued license to Gulf African Bank to provide Islamic banking and ever since other banks offering Islamic banking have emerged including National Bank which recently opened an Islamic Banking window to run parallel with the traditional banking system (Rafiq, 2010). The same have been replicated in the insurance industry when Takaful became operational after getting approval from the regulator (IRA) in 2011. As a result, the adoption of Takaful in Kenyan market has not only intensified competition but also brought in a new business model that is likely to enhance innovation and offer alternative to those who have reservations on conventional insurance or are dissatisfied with it.

(Mohd, 2006) did carry out a review on the issues that affect Takaful industry but failed to provide remedies in addressing some of the issues that he raised. The issues he raised from his review included modernization of data-processing systems and interface between conventional software and Islamic value, cross-training Takaful managers to be knowledgeable about Islamic finance as well as risk management, expanding and enhancing the capacity for Re-Takaful globally and broadening distribution channel beyond agency system including Bancatakaful. However, his review is silent on the environment where those challenges are found or applicable. (Talah, 2009) on the other hand did conclude that despite Takaful first origin in Sudan, the rate of its development has been extremely hampered and compounded by decades of civil war in the country. An article written by (Rafiq, 2010), focused on the challenges of marketing Takaful in non-Muslim countries with clear emphasis that a lot of regulatory regime changes have to be implemented to allow Islamic banks to sell insurance products and develop investments instruments that are Shariah compliant realized. In 2012, a group of undergraduate students from University of Nairobi carried a research project on the challenges of marketing Takaful insurance in Kenya. The major challenges that they pointed out in their research included: religion and misconception on Takaful, ignorance of Takaful products, negative perception and lack of product innovation. The students appeared to have concentrate more on Takaful products thus leaving other intrusive features that impact on the operation of Takaful insurance in general.

These reviews reveal no evidence of a study carried out on the challenges facing adoption of Takaful insurance in Kenya despite the country's adoption of Islamic financial systems which run concurrently with the traditional financial system. This is the gap that this study intends to fill. The study therefore address the question: What are the challenges that hinder the adoption of Takaful Insurance in Kenya?

1.3 Research objectives

The objectives of the study were:-

i) To determine the challenges hindering the adoption of Takaful Insurance in Kenya.

ii) To determine measurers put in place by the insurance industry players in overcoming these challenges.

1.4 Value of study

This research will be of significance to various groups of people. Regulators and government agencies will be able develop policies and guidelines that will promote and enhance Takaful Insurance adoption in the country. Insurance is a highly regulated industry and Takaful is not immune of this, Takaful requires a different legal frame work such as Shariah Supervisory Board (SSB) to ensure that the organizations adhere to the tenets of Muslims faith. Therefore, having noted inherent challenges that Takaful operators face SSB and IRA will ensure develop guidelines and supervision requirement to address these challenges that may hinder execution of their mandate.

Policyholders and the general public will be greatly informed by the availability of this literature and enable them to make informed decision when engaging or purchasing Takaful products. In addition, they will know the similarities and contrast that exists between conventional and Takaful insurance and thus enable them to make informed decisions on their insurance needs.

On the other hand, interested researchers, investors and students will also benefit from the study as it would serve as source of reference and in particular on Takaful subject. Finally, investors will also benefit from the findings of this study by knowing prior the challenges that are likely to impact on the performance their investments and thus develop measurers that would minimize the risk that would negatively impact on their investment

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers both theoretical and empirical literature of the study. The empirical concept will focus on the past findings or studies on Takaful Insurance. On the other hand the theoretical literature will cover the comparative analysis of conventional and Takaful Insurance and challenges of Takaful insurance.

The term Takaful is Arabic word "Kafalah" which means self-guarantee or responsibility or more generally taking care of one’s needs. It works on the basis of an agreement made by the participants of the Takaful scheme. Each member agrees to contribute premium *(*Tabarru) which is used to compensate claims and is also invested in approved instruments as provided by the Shariah Supervisory Board. A Takaful Company cannot invest in activities that deal in interest, alcohol, gambling or uncertainty Liaquat (2008). In essence, Takaful insurance acts as the conduit for providing financial benefits in the event of a misfortune through the various types of Takaful products in which individuals as well as corporation participate. Technically, the products are the same to an insurance policy (Dawood and Omar, 2000).In this respect it is extremely important for the Takaful operators to ensure at all times that the Takaful funds would not in any way be jeopardized or unduly exposed to undesirable risk.

In order to operate Takaful Insurance, the most commonly structured models are Mudarabah and Wakala model. The Mudarabah model is a ‘Proprietary’ or ‘Partnership’ model that considers the Takaful operators as business partner with participants Ahmad (2009). It is structured on classic profit-sharing principles where the participants provide the capital, while the Takaful operators provides expertise and management of the Takaful fund and any surplus (profit) or deficit (loss) is shared among all the participants via predetermined ratio mutually agreed with the policyholders at outset. Neither the operator nor participants can unilaterally alter this agreed sharing ratio, which is usually explicitly set out in the contract at outset. On the other hand, Wakala model is an 'Agency' model that treats the Takaful operators as an agent of the participants tasked with administration of Takaful fund for which it is compensated through a fixed fee (Fisher, 2008). The operator does not share the risk nor surplus generated from the two funds (investment and underwriting) but instead receives a fixed up-front fee (commonly a percentage of contribution paid) to cover management expenses, distribution costs-including intermediaries remuneration-cost of capital and a margin for operational profit. Likewise to Mudarabah, this fee must be pre-agreed and is commonly expressly stated in the contract. It important to note that all this contract strongly uphold the concept of mutuality and prohibit any form of business ethics that is not shariah compliant.

Conventional insurance is as a non-shariah compliant as it contains elements of Riba (Interest), Gharar (Uncertainty) and Maiser (gambling).The main difference between Takaful and conventional insurance is that Takaful is free of these elements. The Islamic law (Shariah) sets the framework for insurance operations and legitimizes the existence of insurance practices and gives prohibitions as well as recommendations for the operations of insurance undertakings. Shariah Supervisory Board (SSB) will review Takaful policies and procedures so as to be in tandem with the needs of Market that is serves without violating any of the Shariah laws, every Takaful policyholder has the right to know how their money is utilized, how the surrender value is computed and how profits from various investments are shared while at the same time ensuring that return on equity originate from acceptable instruments as required under shariah law (Billah, 2001). However, the challenges that Takaful operators need to overcome and out compete conventional insurance is enormous and therefore, research, innovation and product development will be key to unlock its potential (Balal, 2005)

2.2 Theoretical foundations

There arose the need for Islamic insurance or Takaful, meaning guarantee and solidarity, to cater to Muslim customers who would like to ensure that they do not deviate from the sharia view point (Balal, 2005). Takaful today operates in Muslim as well as non-Muslim countries. In the latter, it is strengthens the local banking system. Takaful is a unique system of mutual risk sharing and concentrates on providing maximum assistance to the unfortunate. It is rational and altruistic, since it is embedded in the principle of Zakat (Anwar (2008). Takaful dictates the profits should be clean, non-exploitative and based on productive efforts. It follows from this that many practices in conventional insurance are rendered invalid, or unacceptable. It deals only with pure risk, where there are only two possible outcomes; loss or no change.

Takaful is a form of co-operative risk sharing using charitable donations. The policyholders, or insured, pay premium to a fund as donation for those who suffer losses. The policyholders are then entitled to receive a surplus from the co-operative insurance fund just as they will help make up for any deficits. The premium or donation will differ based on the degree of risk. It is based on the sharia tenets which state that if gain is desirable, loss should be acceptable there should be no ambiguity or unknown and doubtful risk involved; there should be no deception; there should be no loss due to ignorance or absence of information (Al Sadah, 2006). Co-operation in Takaful context is for the sake of taking care of any one of them who may be subject to an accident, loss of wealth or any other misfortune (Billah, 2001). As a result, Takaful may be in the form of family plan or general plan. The family plan which is referred to as life insurance in conventional insurance, is a long term saving and investment plan with a fixed maturity period. The general plan which is referred to as a general insurance in conventional insurance is a short term contract that provides mutual compensation in the event of a defined loss.

2.3 Theoretical concepts of conventional and Takaful insurance

Early literature on insurance did concur on one thing, insurance was meant to protect the society against any form of unforeseen risk that may put the interest of individual or society at stake and as result, members were encouraged to contribute particular amount under the common pool that would be used to compensate those affected by risks such as fire, accidents and death (Al Sadah, 2006).

Takaful being a new concept is based on a set of principles that are both Shariah compliant and economically viable. Takaful from the stand point of pure semantic and Arabic morphology, indicates two parties or more providing an indemnity to one another as much as one party intends to indemnify his fellow participants, he also expects to be indemnified by the other parties (Ayub, 2007). Convention Insurance –with the exception of mutual insurance schemes-is based on the principle that the insurer provides indemnity in return for a premium paid by the insured (Kong and Manmohan, 2005) thus, the risk of loss is transferred to the insurer entirely. The transfer of risk is the essence of the conventional business for which proprietory insurance companies are set up. A Takaful operator (TO), on the other hand is not an indemnity provider. The obligation to pay the claims lies with the Takaful fund (Ainley and Ali, 2007). Therefore, conventional insurance seeks to eliminate risk for the individual, whereas Takaful aims for risk elimination within a given social group.

An influential Islamic scholar, Mustafa (2006) in his book made an argument for the acceptability of conventional insurance practices as insurance contracts in the aggregate poses very little uncertainty, since the risk for which the parties are contracting can be valued. This argument was not enough to quell the general unease pious Muslim have with the idea of conventional insurance. Thus, a new approach emerged which shifted the conceptual focus of insurance away from individual contractual agreements and towards the institution of insurance's benefit to society as a whole, conventional insurance concept is easier to understand and appreciate, particularly from a commercial perspective. It is simply a contract that imposes on the insurance company an obligation to provide either the sum insured or the payment of claim (Archer, 2004), uncertainty is therefore a common phenomenon under conventional insurance, this is unacceptable in Takaful since Islamic law requires that contract of exchange has to be free from uncertainties in the counter values. Being free from uncertainty is never possible in the insurance industry, because uncertainties are peculiar and integral to both premium and claims (Fisher,2008).

Whereas conventional insurance still dominate the market, the growth rate of Takaful Insurance currently stands at 20% and is expected to increase to 30% by 2015 before settling at 15% thereafter (Ernst & Young, 2010). Conventional insurance growth globally has stagnated at 8% for the past five years and the rate in projected to decrease to 6% in the next three years globally. Therefore, Takaful has continued to show huge potential despite numerous challenges affecting its adoption and penetration (IRA, 2011). In Kenya, the Takaful future look bright, for instance, Takaful Insurance of Africa (Kenya) did realize 32% growth in gross written premium for the first year of its operation and it is expected that the gross premium will increase in the year 2012 (AKI,2011).

2.4 Empirical literature review

(Usmani, 2007) contends that Muslims have been having common misunderstanding that insurance or risk mitigation is not allowed under Islam, as Muslims believe that only God knows one's future and faith. He further elaborated that mutual assistance was not originally a commercial transaction and did not contain any profit at the expense of others. As a result, focus in Takaful in general is around the importance of moral values and ethics as business is meant to be conducted openly and full of disclosure, truthfulness and fairness in all dealings. However, there are some schools of thought within Islam that allow conventional insurance so long as it does not involve Riba (or Usury) whilst others have a range of tolerance (Balal, 2005).

From its emergence in 1979 in Sudan, Takaful is not a type of insurance but rather an alternate to insurance (World Bank, 2005). It operates on cooperative principles and incorporates the concept of Tabbaru (donation, gift); instead of insurance premium, Takaful participants (policyholder) donate their Takaful contribution to a common pool to mutually assist the members against a defined loss or damage. Therefore, Takaful is a one way transaction, which does not expect a definite return on the donation. (Ismail ,2005) did write in Islamic finance journal that Takaful operators in Malaysia are prepared to adopt latest technology to spur growth and support their financial system that currently have been experiencing unprecedented growth. Kenya is the biggest economy in the East African Market and boost of significance growth and uptake of the Islamic Finance in the region, Muslim population is estimated to be 10-20% of the 40 million and from the sterling performance exhibited by Islamic banks, it is expected that Takaful Insurance of Africa comes to the Kenyan market as an alternative concept aimed at increasing insurance penetration and improving the perception and image of insurance locally (Abbass, 2012). Takaful is designed to serve people of all faiths and backgrounds, despite the reference to Shariah laws (Mbogo,2011) and further confirms that Kenya's insurance regulator has noted a sharp increase in the number of conventional insurer's enquiring about setting up Takaful windows to tap the growing demand for Islamic finance in the country.

Aurora (2011) contends that Saudi Arabia has emerged as the largest market for Takaful insurance with an annual growth of 15-20% annually and the growth is expected to accelerate because the government has continued to provide legislation that promote its growth such flexible and attractive taxation systems especially on Family Takaful products. Abdikadir (2011) on the other hand notes that Malaysia remains determined to provide ambient environment that would promote Takaful growth through creation of attractive investment instruments that are shariah compliant so as to eliminate the challenge of limited investments instruments noted in other regions operating Takaful business model.

2.5 Challenges of adopting Takaful Insurance

Although a sense of direction is important, is can also stifle creativity, especially if it rigidly enforced. Aarker (1991). Takaful is a new business concept that needs to be executed with utmost speed and accuracy to benefit from the perceive benefits. Many new business models undergo only brief periods of popularity where others tend to be too narrow in focus or too general and abstract to be applicable to a specific situation Walker (1994).

(Ford & Gioia,2000) pointed out that some of the challenges encountered while implementing new business model are due to; failure to understand the customers, inadequate or incorrect marketing research and inability to predict environmental reactions. Takaful being a new concept in Kenya, the rate of its adoption is still very low and majority of those who have either taken one or more products of Takaful, still do not understand the philosophy on which Takaful operates and to make matter worse, some of the clients only took or bought those products after seeing a member of the family or friend buying the products (Bhatty,2002). To advance rapidly and gain acceptance among clients in emerging markets owning property as well as those with little or no property, Takaful operators will need to focus more resources on developing a message attuned to their potential customers in their respective local markets. Given the level of ignorance that currently prevails (even among Muslims) about principles of Islamic finance, banking and insurance (takaful) practices, there is need to rapidly progress in end user education and awareness in order to create "primary demand" for Takaful products.

Walker (1994) posited that in order for a firm to save on cost and meet evolving customers demand, technology should form integral part of their service delivery in the customer's supply chain. Therefore, Takaful operators who fail to embrace new technology and adapt modern delivery mechanism such as the internet, then their Takaful products will most likely appear disadvantaged and non-competitive to the potential buyers. In addition, there is chronic shortage of trained professionals with skill necessary to propagate the ideals of Takaful. Yon (2009) analyzed some of the challenges that Takaful operators are likely to face particularly on territories that do not have proper legal frame work to support establishment and growth of Takaful Insurance. Some of the challenges that the industry include lack of uniform terminology, difference in Shariah interpretation, Retakaful and promotional marketing strategies are issues that require urgent attention if at all Takaful potential is to be realized. Kenya has had a similar share of challenges that include inadequate skill and knowledge that would be necessary in ensuring Shariah compliance leadership for the few institutions that transact Takaful business, absence of product innovation and corporate governance

Takaful operators have a shortage of tradable shariah compliant assets in the market such as Skuks and Quard-Hasam (Wambura, 2012). Lack of suitable (shariah-compliant) investment vehicles, particularly those with longer-term duration. There are a number of hurdles related to sharia compliant assets in which companies must invest the contribution made by Takaful participants. In the short term, owing to the relative size of the Islamic banking over Takaful market investment instrument that are sharia compliant are few and thus posing huge challenge to Takaful operators. In Kenya, the trend is even worrying since the Islamic financial system is still in formative stage and therefore, Takaful operators have a huge challenge of getting those acceptable investments instruments for contribution that they receive (Billah, 2001).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the specific approaches that were used in data collection and analysis in order to answer the research questions. It focuses on research design, target population, sampling technique and description of the research instruments, data collection procedures and analysis of data.

3.2 Research Design

To answer the research question a descriptive survey design was used in order to get in depth understanding of the Challenges of adopting Takaful in Kenya. The survey was non-experimental, descriptive research method; the information was collected from a common group through interviews and application of questionnaires to a representative sample of that group. This design was preferred because it assisted in understanding characteristics of large population. In addition, high reliability is easy to obtain by presenting all subjects with a standardized stimulus which ensures that observers' subjectivity is greatly eliminated Mugenda & Mugenda (2007).

3.3 Target Population

There are a total of 45 insurance companies in Kenya. However, for the purposes of this study the target population was insurance companies offering Takaful products and Agencies involved in transacting Takaful business. Currently only five insurance companies are offering Takaful products in Kenya. These include Takaful Insurance of Africa (TIA), Jubilee Insurance, Metropolitan Insurance, Cannon Insurance which has partnered with First Community Bank to offer Takaful products and UAP insurance. There are 100 active Takaful agencies (see appendix IV) since the establishment of Takaful Insurance of Africa. The study sought the views of the insurance companies and agencies offering Takaful products with a view to establish the challenges in the adoption of Takaful insurance in Kenya.

3.4 Sample Size

This study used systematic random sampling method. Mugenda and Mugenda (2007) contend that a 10% sample can be used to represent a population. However, they argued that the bigger the sample, the more representative of the population it is. In this case, 30% of the 100 agents (Principal officers) were selected as respondents and thus giving a total of 30 agents while on the five insurance company side respondents were heads of business units of Marketing, ICT, Business Development, Human Capital, Compliance and Risk Manager giving a total of 25 respondents, the two groups gave a total of 55 respondents for the purposes of this study since they did have critical information necessary for the study.

3.5 Data Collection

Both Primary and Secondary data was used. Primary data was collected by use of a questionnaire embodying both close and open-ended questions, so as to overcome sensitivities associated with sharing of information on Kenyan firms. The questionnaire was administered electronically to the respondents and where not possible through mail survey especially for agencies with no email address. Secondary data was derived from documented and recorded data based on Takaful insurance.

3.6 Data Analysis

Data analysis is the act of transforming data with the aim of extracting useful information and facilitating conclusions and since data to be collected was qualitative in nature content analysis was employed to make inferences. According to Holsti (1969), content analysis is used to make inferences about antecedents of a communication, to describe and make inferences about characteristics of a communication. It involves observation and detailed description of phenomena that comprise the object of study. This method was preferred because the information collected was qualitative and therefore required analytical understanding.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents findings, discusses and interprets on the findings of the research study. The purpose of the study was to determine the challenges hindering the adoption of Takaful insurance in Kenya and measurers employed by industry players to overcome these challenges.

The sample frame for the research included 30 insurance agencies engaged in selling Takaful products and 25 individuals drawn from the five insurance companies who head business unit of Marketing, ICT, Business Development, Human Capital, Risk and Compliance. Questionnaires were administered electronically and where not possible through mail survey especially agencies with no email address. The list of selected insurance companies is shown in appendix 3.

4.2 Response rate

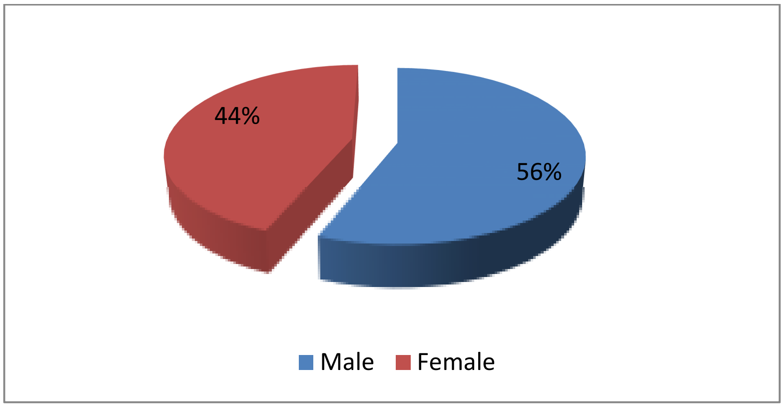
A total of 55 questionnaires were distributed and 47 were returned making a response rate of 85.45%. This was considered to be good response since the industry under study is very restrictive in giving out information and the organizations they work for.

4.3 Demographic information

4.3.1 Gender

Out of the respondents that were contacted, 56% were male, and 44% were female. From the pie chart in figure 1.1, majority of the people involved in transacting Takaful products are male. As result, if Takaful operators are to be all inclusive it must train more women in order to push Takaful agenda. In addition, if there are products that are tailored for women and the number of women participation remain as in figure 1.1 then Takaful performance will still be minimal and that affecting its adoption.

Figure 1.1: Gender of the respondents



4.3.2 Work experience

The study investigated work experience in the insurance industry as well as work experience within Takaful operations. In addition, respondents' first interaction with the term "Takaful" was also considered. The study revealed that most respondents had 6-10 years' experience in the insurance industry, while the least was more than 10 years as presented in the table below

Table 4.1: Number of years in the insurance industry

Number of years	No. of respondents	Percentage %
1-5 Years	9	19.2
6-10 Years	32	68.1
More than 10 Years	6	12.7
Total	**47**	**100**

From the Table 4.1 the study found that 68.1% of the respondents had served between 6-10 years while 19.2% had served between 1-5 years and another 12.7% served for more than 10 years. The study therefore implies that if Takaful operators are to sustain the competition and remain relevant then they need to invest more on human capital for their business to be sustainable while at the same time work out incentive that would retain talented individuals in the industry so to help push Takaful agenda.

Interestingly with regard to experience on Takaful industry, 90% of the respondents were previously working under conventional industry before joining Takaful operators. As a result, for Takaful operators to achieve their objectives they need a complete paradigm shift in the way insurance business is conducted as these individuals should be taken to refresher courses to convert their thinking and their way of working to uphold tenets and principal of Takaful. Otherwise the public and various stakeholders will not be able to differentiate between Takaful and Conventional insurance. However, most top management of insurance companies did confirm that they have obtained adequate training on principles of Takaful from Institute of Islamic Insurance-Bahrain even though their engagement in Takaful industry is less than five years. As result, they will be in constant consultation with Shariah Supervisory Board of their various organizations to ensure that principles and tenets of Takaful are properly guarded and never violated in their daily operations or in product development. This will impact on their determination to do things right and in the long run succeed.

Further analysis of the study indicate that 61.7% of respondents said that they first heard of Takaful insurance in 2010 in the media when Takaful Insurance of Africa was seeking approval from Insurance Regulatory Authority (IRA) to start Takaful business in Kenya while 17.0% heard of Takaful before its concept being taunted in Kenya market. The remaining 21.3% could not tell where and when they first heard the term Takaful insurance and thus had no idea as shown in the Table 4.2.

Table 4.2: Where and when was the first time you heard about Takaful

When and where they first heard of Takaful	N0. of respondents	Percentage %
In the media in 2010	29	61.7
Outside the country	8	17.0
No idea	10	21.3
Total	**47**	**100**

From the table above, it is evident that more than half of respondents only came to know of Takaful insurance through media and thus if media is not able to provide additional information then majority of them will not be aware of emerging issues and factors affecting Takaful industry. Therefore, this points to the need for Takaful players to provide other avenues where additional information on Takaful can be obtained to create more awareness.

4.4 Public perception onTakaful insurance and religion

From the responses received, it is apparent that 89% of the public perceive Takaful as insurance product exclusively belonging to Muslim faith while 11% did confirm that any person have right to buy and enjoy Takaful products offered in the market. On the other hand, 85% of respondent's confirmed that religion is not a key factor that is considered when one is buying Takaful insurance. However, the public perception has persistently viewed Takaful insurance as a model of business that is aimed at serving the interest of Muslim faith. The remaining 15% has a strong feeling that in order to be sharia compliant any individual seeking to become Takaful policyholder should be a Muslim in order to uphold tenets of Takaful insurance. The Table 4.3 gives the statistics of the responses received;

Table 4.3: Rating of religion as a key factor when seeking for Takaful insurance

Responses	No. of respondents	Percentage %
Yes	7	15
No	40	85
Total	**47**	**100**

From the findings in table 4.3, it means that Takaful players will not be able to sell substantial portion of their products to non-muslim clients and thus making it harder to penetrate and grow in non-muslim territories which is a huge potential market that has not been fully exploited.

4.5 Performance of Takaful compared to conventional insurance

The respondents were asked to indicate performance of Takaful insurance compared to Conventional insurance. The results are as indicated in Table 4.4 below;

Table 4.4 Performance of Takaful insurance compared to conventional insurance

Responses	No. of respondents	Percentage %
Better than	28	59.6
No difference	16	34.0
Below average	3	6.4
Total	**47**	**100**

From the above Table 4.4, 59.6% of respondents confirmed that Takaful insurance performs better that conventional insurance while 34.0% did not see any difference and 6.4% said that Takaful insurance performs below average compared to conventional insurance. From the findings, it suggest that majority of the respondents perceive Takaful to have performed better possibly because it was a new concept and therefore majority of individuals could have bought Takaful policies with a view to have a feel and taste of what the market offers that is relatively new and different from conventional insurance. In addition, it could have gained a proportion of market share that was initially enjoyed by the conventional insurance and more so the Muslim segment. As a result, Takaful operators have got huge potential and therefore, they should be innovative and provide products that are relevant and serve interest of their market to ensure retention of existing clients and while at the same time grow their market segment.

4.6 Factors that have influenced emergence of Takaful insurance in Kenya.

The question was an open ended and sought to identify main factors that influenced emergence of Takaful insurance in Kenya. From the findings of the study it was noted that Muslim culture, emergence of Islamic banking and low penetration of insurance were three common factors that respondents provided as indicated in the Table 4.5.

Table 4.5: Factors that have influenced emergence of Takaful in Kenya

Factors	**No. of respondents**	**Percentage %**
Muslim Culture	31	66.0
Emergence Islamic banking in Kenya	11	23.4
Low penetration of insurance	5	10.6
Total	**47**	**100.00**

The high rated factor that influenced emergence of Takaful insurance is Muslim culture, Muslim culture prohibit any business transaction that contain elements of Riba, Gharar and Maiser. 66.0% of respondents were in support of Muslim culture while 23.4% indicated that emergence Islamic banking in Kenya had influenced emergence of Takaful insurance in the country. The remaining 10.6% did suggest that low penetration of insurance as whole had influenced emergence of Takaful so as to form alternate to traditional insurance.

From the findings in the Table 4.5, Muslims culture has been taunted as the major factor that has contributed to emergence of Takaful insurance. Conventional insurance has been criticized for not adhering to principles of Islamic faith that prohibit Riba (interest), Gharar (uncertainty) particularly at the time of paying claim and Maiser (gambling). In addition, conventional insurance main aim is to maximize profit for the shareholder and therefore violating the basic principle of Takaful that is aimed at promoting brotherhood. Therefore, majority of Muslim faith had reservation on conventional insurance and opted to employ traditional means of managing risk by rely on Quran teachings in sunnah 5:2 which state that mutual protection is in Allah's hand and nobody will enter paradise if he does not protect his neighbours who is distressed. 23.4% posited that emergence of Islamic banking played a critical role towards establishment of Takaful insurance in the country whereby there was a lobby to create a full financial system that would be sharia compliant and thus resulting to establishment of Takaful insurance in the country. This would attract Muslims and individuals that had reservations with regard to conventional insurance.

4.7 IRA role in promoting Takaful growth in Kenya

This was an open ended question that sought to get the views of respondents with regard to the role of IRA in promoting growth and development of Takaful insurance. From the findings, there was a unanimous agreement among all respondents that IRA had a role to play in promoting Takaful insurance growth in the country. In addition, all respondents agreed on one thing that IRA is the autonomous government agency with sole responsibility of regulating and promoting insurance growth in Kenya. In addition, there were varied answers given by respondents on ways IRA can assist in Takaful growth. The suggestions were analyzed and grouped into four categories as presented in the Table 4.6.

Table 4.6: Ways in which IRA can assist in growth of Takaful insurance effectively

Ways IRA can enhance Takaful growth	**No. of respondents**	**Percentage %**
Public education and awareness of existence of Takaful insurance in the country	22	46.8
Enact flexible piece of policy guideline to cater for the special regulatory regime of Takaful insurance	11	23.4
Offer specialized training in consultation with local universities and tertiary educations institutions on Takaful insurance	8	17.0
Approval and license of Retakaful insurance company	6	12.8
Total	**47**	**100**

Findings in table 4.6, clearly demonstrate that 46.8% are of the opinion that public education and awareness was critical to enhance Takaful growth, 23.4% recommended flexible regulatory regime for Takaful operators while 17.0% proposed availability of specialized training in consultation with local universities and other tertiary education institutions with regard to Takaful insurance. Finally, 12.8% suggested that IRA should approve and license Ratakaful insurance company to reinsure those risks underwritten by Takaful operators.

From the findings, public education and awareness has taken the lion share of respondent's proposal and therefore, for Takaful operators to overcome the challenges that impede its adoption, the public must be informed of its existence and what they offer. This will create useful information to the public that would be critical in making decisions with regard to their insurance needs and that will result not only in increasing Takaful market share but also increase their penetration rate. At the same time, IRA should enact guidelines that would be catering for the special needs of Takaful operators without compromising on quality of supervision and thus upholding public confidence on Takaful operators.

Finally, shortage of human capital has been taunted as one of the factors hindering adoption of Takaful insurance and IRA being the regulator of insurance industry, it should recruit, train and retain competent staff that would be critical in pushing Takaful agenda while at the same time providing clear guidelines to Takaful operators on areas that they should improve on to enable them realize their potential. Improvement of skill competence can be done through partnership with local and tertiary institution to offer specialized training on Takaful.

4.8 Factors that affect development of Takaful insurance in Kenya

Respondents were provided with a pre-defined question regarding factors affecting development of Takaful insurance in Kenya with a 5-point scale rating where 1= No extent at all and 5= Very great extent. The benchmark for significant finding was above 3.The results are as follows;

Table 4.7: Factors affecting development of Takaful insurance in Kenya

Factors affecting adoption of Takaful	Mean	Percentage	STD Deviation
Negative perception of Islamic religion	1.19	3.9	0.37
Lack of innovative and flexible products to cater for Muslim needs	3.56	11.8	0.03
Chronic shortage of skilled man-power to drive Takaful concept	3.58	11.9	0.04
Lack of capacity from the regulator (IRA)	3.18	10.5	0.00
Inadequate distribution channels	2.36	7.8	0.05
High level of ignorance and lack of awareness of Takaful products	4.81	15.9	0.36
Lack of acceptable investments instruments that are Sharia compliant	2.13	7.1	0.09
Lack of Retakaful in the country	2.76	9.2	0.01

Lack of modern technology that can easily interface between Conventional software and Islamic value	3.26	10.8	0.01
Shortage of Sharia scholars with appropriate experience and skills	3.33	11.0	0.01

From the result in Table 4.7, it indicates that the standard deviation score are close to mean and thus indicating that the responses are fairly uniform and thus the benchmark score will be 3 and above. In addition, standard deviation scores indicate that the factors have positive impact on the objective of the study. Further analysis confirms that greatest factors affecting adoption of Takaful insurance in Kenya is high level of ignorance and lack of awareness of Takaful products (15.9%) followed by shortage of human capital (11.9%), lack of innovation(11.85), shortage of sharia scholars (11.0%), lack of modern technology (10.85), lack of capacity from IRA (10.5%), lack of Retakaful (9.2%), inadequate distribution channel (7.8%), lack of investment instruments that are sharia compliant (7.1) and the least is negative perception of Islamic religion (3.95).

From the study it evident that lack of public education and awareness pose big challenges towards the adoption of Takaful insurance in Kenya and therefore, if Takaful concept is to be successful, there is urgent need to educate the public while at the same time train staff on the principles of Takaful so that they are able to push the Takaful agenda and eventually create an impact by availing the much needed information. In addition, if Takaful is to remain relevant, it must invest in research to enable is innovate products that would serve its target market.

4.9 Measurers to overcome the challenges of adopting Takaful in Kenya

The respondents were asked to indicate measurers that are to be adopted in addressing the challenges facing adoption of Takaful insurance. The results are as indicated in the Table 4.8.

Table 4.8: Measurers to be adopted in addressing challenges in the adoption of Takaful

Measurers to be adopted	Responses	Percentage (%)
Public education and awareness	25	19.4
Adoption of technology from already established market like Malaysia	20	15.5
Introduce Takaful and certificate and diploma level in tertiary institution	9	6.8
IRA to enhance its capacity through training of staff	19	14.7
Lobby the government to introduce investments instruments that are sharia compliant like Skuks	11	8.5
Increase distribution channel through Bancatakaful	18	13.9
Investment in market research and innovation	21	16.2
Development of Retakaful arm in the reinsurance market	6	4.6

The results in Table 4.8, indicates that 19.4% of respondents perceive public education and awareness as the most significant measurer that should be adopted and 15.5% of respondents supported investment in market research and innovation as the critical measurers that should be adopted to enhance development of Takaful insurance. It evident from the study that lack of awareness has been the greatest factor that has not only hindered insurance penetration in the country but also Takaful. As a result, if Takaful potential is to be realized then all stakeholders need to device ways of educating and informing the public of existence Takaful together with available products that are on offer. Public awareness and education is factor that has featured predominantly in the study. On the other hand the least measure that would have insignificant influence on development of Takaful is Retakaful which only receive a paltry of 4.6% of respondents in supporting of it. This would be possibly as a result of Takaful being in the formative stages and therefore Retakaful would only be relevant to a mature market as the risk currently being undertaken by Takaful operators is still minimal and therefore whatever is ceded is equally small. However, as the Takaful industry grows Retakaful would be important and critical component in assisting Takaful operators to manage the risk that they underwrite. Interestingly, while evaluating how IRA can assist in development of Takaful as illustrated on table 4.6. 12.8% of respondents suggested that IRA should approve and license Retakaful Company to reinsure the risks underwritten by Takaful operators. This should be a long term plan that IRA should have to ensure that Takaful operators are adequately covered but not as immediate action plan to assist in addressing the current challenges facing Takaful operators. Anwar (2008) contend that Takaful is relatively a new concept and therefore, it can only reveal itself in markets that have either accepted or are willing to accept Islamic finance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents a summary of the study, conclusions, recommendations as well as suggestion for further study.

5.2 Summary

The purpose of the study was to establish challenges in the adoption of Takaful insurance in Kenya. The study was conducted using descriptive survey design in order to get in depth understanding of the small sample size that had been selected. A random sampling was used to select the sample size for insurance agents transaction Takaful business and the main instrument to collect data being semi-structured questionnaire targeting five individuals that head business unit in each of the five selected insurance companies while on insurance agencies transacting business on Takaful products only principal officers were selected for the sample size of the 30 agencies that were selected.

The data was analyzed to establish the various measurers that should be adopted by Takaful operators in Kenya to enhance Takaful growth. The parameters that were analyzed included the gender of respondents, factors affecting adoption of Takaful insurance and measurers that should be adopted by Takaful operators to overcome the challenges that inhibits its adoption in the country. Data was then presented in terms of tables and charts.

From the study, there were varied views but it is evident that public awareness on Takaful is minimal and thus impacting on its performance. While trying to evaluate measurers that should be adopted to overcome challenges facing adoption of Takaful insurance and factors affecting adopting of Takaful insurance, 15.9% and 19.4% respectively confirmed that public awareness is the greatest hindrance towards development of Takaful insurance in the country and therefore all stakeholders should emphasize the need of educating the public and empowering them with relevant information that would assist them in making informed decisions when purchasing insurance. The study further indicated that 11.9% pointed out that Takaful operators are facing chronic shortage of skilled human capital that is necessary to assist them push and develop Takaful industry. As a result, relevant training is important by partnering with universities and other tertiary institutions to train their human resource not only to enhance their capacity and skill but also provide a solid foundation that would be important in ensuring sustainable development and growth of Takaful industry as whole. In addition, training will enhance self-esteem and confidence within their human capital and weed out unethical practices especially on sales team that have negatively impacted on the reputation of insurance industry as whole. In addition, the regulator also lacks capacity to supervise Takaful operators since their personnel do not clearly understand how Takaful insurance operates. 10.5% of respondents were of the view that the regulator (IRA) to supervise Takaful business it will need to review the existing supervision guidelines and procedures governing insurance industry to incorporate Islamic insurance just as the conventional counterpart.

Most businesses within the financial services sector have been at the forefront in adopting technology that would enhance their performance. In order for Takaful operators to remain competitive, they must invest in technology that would enhance service delivery while at the same time minimizing on their cost. 10.8% of respondents posited that Takaful operators should procure technology that easily interface between conventional software and Islamic values since majority of software companies developed software that tend to serve interest of conventional market and leaving out Takaful operators. However, the software should be flexible and tailored to incorporate Islamic values that prohibit short-comings that are present in conventional insurance. As a result, Takaful operators will have competitive edge against conventional insurance and thus enhancing their performance and most probably increasing their market share in the long run. From the study, it also emerged that Takaful operators have shortage of Sharia scholars who would be providing advice to the management on compliance of their various Takaful products that are free from interest (Riba), gambling (Maisir) and uncertainty (Gharar). 11% of respondents confirmed that Takaful operators have shortage of Sharia scholars and therefore if the country continues to grow its Takaful industry then it will have a challenge of getting sharia scholars that have full understanding on how sharia based organizations are managed and run. This will have an impact on the management of Takaful operators as there will be instances where they may deviate from the tenets and principles of Takaful.

In order to counter the challenges facing adoption of Takaful in Kenya, some of the measurers that respondents have proposed to address the challenges in the adoption of Takaful included public education (19.4%), investment in Market research and innovation (16.3%) technology (15.5%) and the proposal that had the least score was establishment of Retakaful (4.7%).

5.3 Conclusions

The study found that, 56% of respondents were male while 44% were female. 61.7% first heard of Takaful in the media, 17.0% heard of it while outside the country and the remaining 21.3% had no idea on Takaful insurance. Regarding how the public perceive Takaful, 89% view Takaful as insurance concept that purely belongs to those subscribing to Islamic faith while the remaining 11% confirmed that any person can enjoy Takaful products irrespective of their religious affiliation. Concerning Takaful performance compared to conventional insurance, 59.6% of respondents agreed that Takaful performed better than conventional insurance, 34% did not see any difference and the remaining 6.4% were of the opinion that it has performed below average. Pertaining to the greatest factor that has influenced emergence of Takaful insurance in the country, most respondents (66%) confirmed that culture has been the greatest impetus in adoption of Takaful. It is therefore important that Takaful operators educate the public on principles of Takaful and the fact that any one is allowed to purchase Takaful products irrespective of their religious affiliations.

As to the role of the regulator (IRA) in enhancing growth of Takaful insurance. There was unanimous agreement that IRA has a critical role to play to assist in development and growth of Takaful insurance, while on the extent of various factors affecting performance of Takaful insurance in Kenya. 15.9% were in support of high level of ignorance and lack of awareness followed by 11.9% of the respondents that concurred that chronic shortage of skilled human capital posed a challenge in development of Takaful while 11.8% were in support of lack of innovation and flexible products to cater for Muslim needs as another factor that impede adoption of Takaful. Some of the measurers that respondents proposed to address the challenges in the adoption of Takaful included public education (19.4%), Investment in Market research and innovation (16.3%), technology (15.5%) and the least factor was establishment of Retakaful (4.7%).

Many challenges therefore facing Takaful operators are strategic at this formative stage as it tries to establish itself in the market. As a result, for Takaful to experience more growth and acceptance it should address the issue of capitalization, competition from conventional insurance, development of human capital, public education and awareness, Retakaful (re-insurance) and having sharia compliant avenues for investment funds. The issue of Sharia compliance cannot be possible with establishment of Sharia Supervisory Board only. It is therefore imperative that as Takaful operators seeks involvement of sharia scholars in management of Takaful operations, it is important to interrogate their business acumen before admitting them in the Sharia Supervisory Board of Takaful operators (Ajmal, 2010). In view of this, few sharia scholars would qualify to join this board and provide the necessary advice that would assist in management of Takaful companies.

The study concludes that, Takaful insurance is a new concept in the Kenyan insurance market and the only way it can realize its potential is through vigorous campaign to create awareness, this would enhance public understanding on philosophy on which Takaful insurance is formed and eliminate the perception that it is a type of insurance that is only meant for Muslim faith. In addition, Takaful operators need to invest a substantial portion of their resources in training their human capital which will be vital in pushing Takaful agenda in the insurance market. Moreover, Takaful operators should develop and innovate products that would serve the interest of their target market while at the same time invest in technology to reduce cost and offer competitive advantage to its competitor- conventional insurance.

From the study, it is also clear that IRA has a critical role to play in development and growth of Takaful. As a result, IRA should develop insurance guidelines and principles that would be vital in regulating this unique sector so as to promote fair competition and growth. On the other hand, Takaful operators are expected to constitute Sharia Supervisory Board that are experienced and have vast knowledge of Takaful operation and management since majority of the decisions taken by Takaful operators will require their assessment and approval.

5.4 Recommendation

While it true that Takaful concept is relatively new in the Kenyan insurance market, there is need for all stakeholders to identify those factors that impede its adoption and see how they can be resolved within the shortest time possible. The research found that 15.95% of respondents confirmed that lack of public awareness is the leading factor that has posed a challenge in the adoption of Takaful insurance. These clearly indicate that if vigorous campaign is done to create awareness then there is possibility that Takaful growth will be realized within the shortest time possible. In addition, Takaful operators should provide training to their staff through partnership with local universities and other tertiary institutions to enhance their human capital base so as to assist in pushing Takaful agenda in the insurance market. Partnership should also be extended to include Insurance Regulatory Authority (IRA), Association of Kenya Insurers (AKI) and Insurance Institute of Kenya so as to create more innovative and relevant products which not only meet customers' expectations but also affordable by majority of the population.

5.5 Limitations of the study

The study focused on the challenges in the adoption of Takaful insurance in Kenya and therefore, these challenges were majorly based on non-financial indicators. As a result, one would ask if there are financial indicators that could also be affecting adoption of Takaful. Further, the study included sample of agents yet they could be having unique challenges that could be impacting on their performance as the distribution arm of Takaful insurance. The result could have been different if challenges facing Takaful agents were also considered. In conclusion, reference materials for Takaful insurance were scarce and therefore, the researcher relied mostly on reference journals and various websites which would have impacted on the quality of research and depth of knowledge of the research.

5.6 Suggestion for further research

Based on the scope and limitation of this study, the researcher suggests that studies should be carried out on growth opportunities and other emerging issues facing Takaful insurance in Kenya. This will provide an overall view on the issues that one needs to look for when considering investing or adopting Takaful as business model in the insurance industry.

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APPENDICES

Appendix I: Letter of Introduction

Dear respondent,

I am a final year Master of Business Administration student at the University of Nairobi specializing in Insurance.

This questionnaire is intended to collect information about challenges of adopting Takaful Insurance in Kenya and intended to collect data purely for academic purposes for the project proposal paper in partial fulfillment of the requirement for the degree of Master of Business Administration from University of Nairobi.

The information in the questionnaire will be treated with confidentiality and at no instance will your name be mentioned in this research. The information provided will not be used for any other purpose other than for this research and a copy of the final report will be made available to you on request.

Your assistance in filling in the questionnaire will be highly appreciated.

Thank you in advance.

Yours faithfully,

George Otieno Ochieng

Appendix II: Questionnaire

This questionnaire aims to acquire information on the Challenges of Adopting Takaful Insurance in Kenya. Please respond to all items.

SECTION A : DEMOGRAPHIC INFORMATION

1.What is your gender?

Male ( ) Female ( )

2. What is your designation?

Top management ( ) Lower level management ( )

3. For how long have you worked in the insurance industry?

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

5. For how long have you worked in the current insurance company/Agency? Below 5 years ( ) 5 – 9 years ( ) 10 - 15 years ( ) 16 – 20 years ( ) 21 years and above ( )

SECTION B: GENERAL INFORMATION

1. Where and when was the first time you heard about Takaful insurance?

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2. How has the public perceived Takaful Insurance in Kenya?

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3. Is religion the key factor that is considered when one seeks for Takaful Insurance?

No ( ) Yes ( )

a) Explain your answer……………………………………………………………………………..

4. Since the adoption of Takaful insurance market in Kenya, how has it performed compared to Conventional insurance?

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5. In your opinion what are the greatest factors that have influenced emergence of Takaful insurance in Kenya?

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6. Do you think the regulator (IRA) has a role to play in helping the growth of Takaful insurance in Kenya? Please tick appropriate answer.

No (   ) Yes (   )

a) Explain your answer as given above.

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b) Suggest on how the regulator (IRA) can be able to assist in the development of Takaful insurance effectively.

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SECTION C: CHALLENGES OF TAKAFUL INSURANCE

1. Which of the factors below affect development of Takaful insurance in Kenya? Use a 5-point scale where:-

   1= No extent at all 2= Little extent 3= Moderate extent 4= Great extent 5= Very great extent

Factors	1	2	3	4	5
Negative perception of Islamic religion					
Lack of innovative and flexible products to cater for Muslim needs					
Chronic shortage of skilled man-power to drive Takaful concept					
Lack of capacity from the regulator (IRA)					
Inadequate distribution channels					
High level of ignorance and lack of awareness of Takaful products					
Lack of acceptable investments instruments that are Shariah compliant					
Lack of Retakaful in the country					
Lack of modern technology that can easily interface between Conventional software and Islamic value					
Shortage of Shariah scholars with appropriate experience and skills					

2. What measurers would you recommend to be put in place address the challenges that are captured above

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Thank You For Your Inputs And Cooperation

Appendix (iii) Insurance companies offering Takaful

N	NAME OF THE COMPANY
1	Cannon Assurance Company
2	Jubilee Insurance Company Ltd
3	Metropolitan Life Assurance Company
4	Takaful Insurance of Africa Ltd
5	UAP Insurance Company Ltd

Source: AKI report March 2011

Appendix (iv) List of Takaful Insurance Agents

	Registration no	Agency Name
1	IRA/05/0473/2011	A.H.Harkhani & Co.Insurance Agency
2	IRA/05/14935/2011	Abbyna Insurance Agency
3	IRA/05/17509/2011	Abiria Insurance Agency
4	IRA/05/14746/2011	Abishaisway Insurance Agency
5	IRA/05/25005/2011	Abrian Insurance Agency
6	IRA/05/12186/2011	Agillient Insurance Agency
7	IRA/05/17691/2011	Ahadi Insurance Agency
8	IRA/05/15868/2011	Aimarc Insurance Agency
9	IRA/05/25147/2011	Al-Akbar Insurance Agency
10	IRA/05/14415/2011	Al-Bariq Insurance Agencies
11	IRA/05//28634/2011	Al-hamal Insurance Agency
12	IRA/05/16910/2011	Alfa Insurance Agency
13	IRA/05/19036/2011	Alfa Zenith Insurance Agency
14	IRA/05/14661/2011	Alfazeta Insurance Agency
15	IRA/05/15512/2011	Annsyl Insurance Agency
16	IRA/05/13433/2011	Ansa Insurance Agency
17	IRA/05/25148/2011	Antarc Insurance Agency
18	IRA/05/16881/2011	Apple Tree Insurance Agency
19	IRA/05/12941/2011	Asher Insurance Agency
20	IRA/05/10345/2011	Ashish Assurance Agencies

21	IRA/05/00130/2011	Ashwin Madhiwala
22	IRA/05/16275/2011	Archway Insurance Agency
23	IRA/05/25061/2011	Bhatson Insurance Agency
25	IRA/05/11238/2011	Bidii Insurance Agency
26	IRA/0524790/2011	Bilan Insurance Agency
27	IRA/05/24112/2011	Bima Assured Insurance Agency
28	IRA/05/12485/2011	Bima-Plus Insurance Agency
29	IRA/05/14561/2011	Boon Insurance Agency
30	IRA/05/24073/2011	Brotherhood Insurance Agency
31	IRA/05/18025/2011	Bullson's Insurance Agency
32	IRA/05/19045/2011	Care cover Insurance Agency
33	IRA/05/24286/2011	Destiny Insurance Agency
34	IRA/05/24273/2011	Dhamana Insurance Agency
35	IRA/05/17820/2011	Diamond Trust Insurance Agency
36	IRA/05/12905/2011	Digital Insurance Agency
37	IRA/05/14146/2011	Dignity Insurance Agency
38	IRA/05/17702/2011	Discovery Insurance Agency
39	IRA/05/0720/2011	Ewat commercial & Insurance Agency
40	IRA/05/24251/2011	Excellence Insurance Agency
41	IRA/05/13478/2011	Farmax Insurance Agency
42	IRA/05/12904/2011	First Community Bank Takaful Agency
43	IRA/05/14511/2011	Gulf African Bank Insurance Agency
44	IRA/05/17865/2011	Ibrahim Abdalla Insurance Agency

45	IRA/05/12786/2011	Kay Insurance Agency
46	IRA/05/18974/2011	Liberty Insurance Agency
47	IRA/05/12339/2011	Pamgid Insurance Agency
48	IRA/05/16565/2011	Pamwa Insurance Agency
49	IRA/05/16100/2011	Paradeem Insurance Agency
50	IRA/05/7240/2011	Parakit Insurance Agency
51	IRA/05/25847/2011	Park Insurance Agency
52	IRA/05/13576/2011	Partners Insurance Agency
53	IRA/05/24722/2011	Patka Insurance Agency
54	IRA/05/14945/2011	Pumi Insurance Agency
55	IRA/05/11054/2011	Quanta General Insurance Agency
56	IRA/05/15988/2011	Quilizers Insurance Agency
57	IRA/05/19078/2011	Rahab Muthoni Njoroge
58	IRA/05/0063/2011	Rajesh Insurance Agencies
59	IRA/05/12248/2011	Ramadhan Mwachuma Insurance Agency
60	IRA/05/16756/2011	Ramamu Insurance Agency
61	IRA/05/25002/2011	Ramani Insurance Agency
62	IRA/05/12978/2011	Ramata Insurance Agency
63	IRA/05/12675/2011	Rana Insurance Agency
64	IRA/05/2040/2011	Rifco Agencies Limited
65	IRA/05/15715/2011	Riverland Insurance Agency
66	IRA/05/17250/2011	Rodish Insurance Agency
67	IRA/05/17329/2011	Rohan Insurance Agency
68	IRA/05/17834/2011	Roisam Insurance Agency
69	IRA/05/24704/2011	Runa Insurance Agency

70	IRA/05/17729/2011	Satelix Insurance Agency
71	IRA/05/15719/2011	Slopes Insurance Agency
72	IRA/05/24102/2011	Smart Choice Insurance Agency
73	IRA/05/17176/2011	Smilax Insurance Agency
74	IRA/05/25709/2011	Sohaad Insurance Agency
75	IRA/05/16126/2011	Solution Point Insurance Agency
76	IRA/05/25770/2011	Sovereign Insurance Agency
77	IRA/05/17025/2011	Sparoid Insurance Agency
78	IRA/05/9105/2011	Speedserve Insurance Agency
79	IRA/05/24074/2011	Sphere Insurance Agency
80	IRA/05/17510/2011	Stalwart Insurance Agency
81	IRA/05/17060/2011	Transnep Insurance Agency
82	IRA/05/17434/2011	Walden Insurance Agency
83	IRA/05/25088/2011	Wendra Insurance Agency
84	IRA/05/15922/2011	Westwing Insurance Agency
85	IRA/05/16461/2011	Wide-Sure Insurance Agency
86	IRA/05/16487/2011	Wide trade Insurance Agency
87	IRA/05/13178/2011	Williams Insurance Agency
88	IRA/05/24673/2011	Winka Insurance Agency
89	IRA/05/16127/2011	Winston Insurance Agency
90	IRA/05/8117/2011	Winsway Insurance Agency
91	IRA/05/14205/2011	Wisecover Insurance Agency
92	IRA/05/7381/2011	World Waivers Insurance Agency
93	IRA/05/14242/2011	X-limit Insurance Agency
94	IRA/05/25026/2011	Yemaya Insurance Agency
95	IRA/05/25731/2011	Zaina Insurance Agency

96	IRA/05/17425/2011	Zaina Kassim Watako
97	IRA/05/25674/2011	Zainab Mohammed
98	IRA/05/15456/2011	Zavora Insurance Agencies
99	IRA/05/15250/2011	Zefo Insurance Agency
100	IRA/05/18074/2011	Ziaken Insurance Agency
	IRA/05/15249/2011	Zinc Insurance Agency