

**STRATEGIES ADOPTED BY KENYAN INSURANCE COMPANIES TO
ALLEVIATE LOW INSURANCE PENETRATION**

BY

BEATRICE NJERI/GITAU



**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENT FOR AWARD OF 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 for a degree in any other university

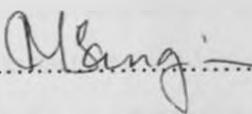
Signed..........

Date.....18/11/2013.....

Beatrice Njeri Gitau

Reg. No. D61/61694/2010

This research project has been submitted with my approval as University Supervisor

Signed..........

Date.....18/11/2013.....

Caren Angima

Lecturer,

Department of Business Administration,

School of Business,

University of Nairobi

ACKNOWLEDGEMENTS

I would like to thank the Almighty God for good health and strength freely granted to me, and for keeping me focused through the entire MBA program.

Special thanks to my supervisor Caren Angima for her continuous guidance, patience, constructive criticism and encouragement through the entire research project period. Thank you for your understanding and for agreeing to supervise my work, despite your busy schedule.

I would also like to thank the management of the Heritage Insurance Company for allowing me time out of office to do my research work. I am grateful to my colleagues, Beatrice Ombaka, Rachel Angatia and Stephen Warui, whose help I sought and who stood by me all along. I wish to mention the Dean of Students, Rev Fr Dominic Wamugunda and Fr. Patrick Kanja for listening to me and giving me encouragement which went a long way to ensure the completion of this project.

I would not want to forget the respondents especially Mr. Christopher Onyango for his invaluable input during data collection. I am grateful to my friend Jacinta who encouraged me and stood by me all along. Not forgetting my MBA classmates and discussion mates Linda, Eric and Masila for their support when the going got tough. I also wish to mention the input and constructive criticism of Dr Zack Awino which went a long way to ensure the success of this project.

This MBA project would not have been successfully completed without the invaluable support and patience from my dear husband, Simon Hiuhu and our daughter Juliet Hiuhu who kept reminding me that I am able. Thank you for your understanding during my long absence from home. A big thank you to my mother, Mary Njoki for constantly praying for me. God bless you all!

DEDICATION

To my dear husband, Simon Hiuhu and our daughter Juliet Hiuhu. Thank you for your prayers, encouragement, understanding, patience and moral support throughout the entire MBA program.

TABLE OF CONTENTS

DECLARATION.....i

ACKNOWLEDGEMENTS.....ii

DEDICATION.....iii

LIST OF TABLES.....vii

LIST OF ACRONYMS/ABBREVIATIONS.....viii

ABSTRACT.....ix

CHAPTER ONE: INTRODUCTION.....1

1.1 Background of the Study.....1

 1.1.1 Concept of Strategy.....3

 1.1.2 Penetration Strategies.....4

 1.1.3 Insurance Industry in Kenya.....5

1.2 Research Problem.....7

1.3 Research Objectives9

1.4 Value of the Study9

CHAPTER TWO: LITERATURE REVIEW.....11

2.1 Introduction.....11

2.2 Theoretical Foundations.....11

2.3 Concept of Strategy.....13

2.4 Insurance Penetration Strategies.....17

2.5 Challenges in Insurance Penetration.....18

CHAPTER THREE: RESEARCH METHODOLOGY.....22

3.1 Introduction.....22

3.2 Research Design.....22

| | |
|---|-----------|
| 3.3 Population of the Study..... | 22 |
| 3.4 Sampling Design..... | 22 |
| 3.5 Data Collection | 23 |
| 3.6 Data Analysis..... | 24 |
| CHAPTER FOUR:DATA ANALYSIS, FINDINGS, INTERPRETATIONS AND DISCUSSION | 25 |
| 4.1 Introduction..... | 25 |
| 4.2 Profiles of Respondents | 25 |
| 4.2.1 Response Rate..... | 25 |
| 4.2.2 Distribution of Respondents by Position in Organization..... | 26 |
| 4.2.3 Length of Service with Organization..... | 26 |
| 4.3 Reasons for Low Insurance uptake in Kenya and Challenges Faced by Insurance Companies in Marketing their Products..... | 27 |
| 4.3.1 Reasons for Low Insurance Uptake | 27 |
| 4.3.2 Challenges Insurance Companies face in Marketing their Products..... | 28 |
| 4.4 Strategies Kenyan Companies can Adopt to enhance Insurance Penetration... | 29 |
| 4.4.1 Current strategies of the Firms Towards Accelerating Insurance Uptake ... | 29 |
| 4.4.2 Extent to which Adoption of Strategies Increases Written Premium..... | 30 |
| 4.4.3 Strategies that would Contribute to Premium Growth | 31 |
| 4.4.4 Role of the Regulators in Insurance Uptake in Kenya..... | 32 |
| 4.4.5 Other Strategies that would assist in Insurance Penetration..... | 34 |

| | |
|---|-----------|
| CHAPTER FIVE:SUMMARY, CONCLUSION, RECOMMENDATIONS, AND | |
| LIMITATIONS OF THE STUDY | 35 |
| 5. Introduction..... | 35 |
| 5.1 Summary..... | 35 |
| 5.2 Conclusions..... | 37 |
| 5.3 Recommendations of the Study..... | 37 |
| 5.4 Limitations of the Study..... | 38 |
| 5.5 Suggestions for Further Study..... | 38 |
| 5.6 Recommendation for Policy and Practice..... | 38 |
| REFERENCES..... | 40 |
| APPENDICES..... | 43 |
| Appendix 1: Letter from University of Nairobi Authorizing Research Work | 43 |
| Appendix 2: Questionnaire..... | 43 |
| Appendix 3: Letter to Respondents..... | 46 |

LIST OF TABLES

- Table 2.1: Summary of Insurance performance in selected countries in Africa**
- Table 4.1: Length of service with organization**
- Table 4.2: Extent to which Adoption of strategies increases the written premium**
- Table 4.3: Factors contributing to premium growth**
- Table 4.4: Other factors that would assist in Insurance penetration**

LIST OF ACRONYMS/ABBREVIATIONS

- AKI:** Association of Kenya Insurers
- AIO:** African Insurance Organization
- IRA:** Insurance Regulatory Authority
- GDP:** Gross Domestic product
- AIBK:** Association of Insurance Brokers of Kenya
- PWC:** Price water house Coopers Kenya
- USD:** United States Dollar
- USAID:** United State Agency for International Development

ABSTRACT

The need for greater Insurance penetration in both life and non life segments has been underscored by economic surveys. Insurance penetration has remained low not only in Kenya but in Africa as a whole. This study set out to establish factors causing the low Insurance uptake, the challenges faced by the insurers in marketing their products and subsequently identify strategies the Kenyan Insurance Companies can adopt to enhance Insurance uptake. A strategy is a plan of action designed to achieve specific goals. There is a growing need for organizations to move beyond solving existing problems to continuously improving in the face of changing conditions (Drucker, 1993). To achieve the objective, primary data was collected through the use of a questionnaire. Senior Executives, operational managers and customer service managers were interviewed from 25 different Insurance companies. It was established that there are many factors causing low Insurance penetration in Kenya and these include lack of knowledge and awareness by the general public about Insurance products and the benefits, negative perception, cultural and religious beliefs like merry go rounds and harambee mentality, inappropriate products, limited distribution channels to name but a few. Amongst the challenges faced by Insurance Companies in marketing their product is legal language in documents that creates a perception that a lot is in the hidden print. In addition adverse publicity of one of the insurance companies affects all the others, and there is general lack of creativity and innovations among Insurance companies which causes unhealthy competition. Strategies to alleviate low insurance penetration include improvement of distribution channels, consumer education or awareness, review of products offered perception of the industry and improved service standards by all in the industry. The Insurance Regulatory Authority plays a central role in fast tracking penetration by enacting appropriate legal framework especially in the area of distribution channels and capital levels of Insurance companies. The Authority can also play a critical role in creating public awareness about the products available and the benefits of Insurance. The Association of Kenya Insurers is also a key player in insurance penetration by lobbying members to uphold professionalism. The body provides a forum where members companies meet and discuss issues that are of industry concern and seek solutions, insurance penetration being one the major concerns. The study recommends collaboration by the various stakeholders in ensuring implementation of strategies that will address the various factors identified as causing low insurance penetration. Key driving factors to increase of Insurance uptake include improvement in distribution channels, customer service, review of products and consumer education and awareness.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Organizations operate within an external environment which is constantly changing and they have no control over it. The external environment is characterized by turbulence associated with globalization, deregulation of markets, changing customer and investor demands and increased competition. There is therefore a growing need for organizations to move beyond solving existing problems to continuously improving in the face of changing conditions (Drucker, 1993). The challenges posed by the changing environment cannot be resolved in a haphazard manner. There is need for organizations to adopt a strategic approach to dealing with the changes, if they are to survive. One of the strategic approaches to handling market challenges is the Ansoff Matrix tool that presents four growth strategies addressing market penetration, market development, product development and diversification. This Matrix coupled with the Market mix 4 P's of product, price place and promotion provides a strong foundation for firms to survive in a turbulent environment

According to Pearce and Robison (2011) strategy is an organizations game plan for winning. Johnson and Scholes (2005) states that strategy is concerned with the long term direction of an organization, which achieves advantage for the organization through its configuration of resources within a challenging environment. A company strategy is a management game plan for growing the business, staking out a market position, attracting and pleasing customers, competing successfully, conducting operations, and achieving targeted objectives. An organization will achieve competitive advantage if an attractive number of buyers prefer its products or services

over offerings of competitors and when the basis for this preference is durable. A winning strategy must fit the organization external and internal situations build a sustainable competitive advantage and improve the company performance. Thompson et al., (2007). Porter (1998) observes that without strategy, the organization is like a ship without a rudder going round in circles. Business organizations are facing an unprecedented pace of change and competition. They have to constantly adjust to the environment in order to remain in existence. If organizations are to survive in a turbulent environment, they have to continuously create new sources of competitive advantage (Porter, 1985).

Despite the fact that insurance has been practiced for over a thousand years world over, it is still a fact that insurance uptake is still very low, not only in Kenya but the world over. The Insurance industry faced difficult economic environment in 2011. Overall gross premium declined by 0.8% in real terms. Premium growth in the industrialized countries was negative 1.1%. Emerging markets had an average growth of 1.3%, (Swiss Re-sigma 3/2012). Statistics show that Global life insurance premiums shrank by 2.7% in 2011. Advanced markets contracted by 2.3%, with the sharpest decline observed in Western Europe (9.8%). The US market recorded moderate growth of 2.9%. Global non life insurance premiums rose by 1.9% in 2011 (AKI report 2011). Insurance penetration is a global problem with developed markets like UK at about 11% and USA at about 8.6% (Swiss Re. Economic Research and Consulting).

1.1.1 Concept of Strategy

A strategy is a plan of action designed to achieve a specific goal. Strategy is all about gaining (or being prepared to gain) a position of advantage over adversaries or best exploiting emerging possibilities. As there is an element of uncertainty about the future, strategy is more about a set of options (Strategic Choices), than a fixed plan. There is therefore a growing need for organizations to move beyond solving existing problems to continuously improving in the face of changing conditions (Drucker, 1993). The challenges posed by the changing environment cannot be resolved in a haphazard manner. There is need for organizations to adopt a strategic approach to dealing with the changes, if they are to survive.

Johnson and Scholes (2005) define strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfill stakeholders' expectation'. Strategy is about winning. It is the unifying theme that gives coherence and direction to the actions and decisions of an industry or an individual company. Strategy is not purely a matter of intuition and experience. Analysis plays a role in the strategy process. Effective strategies have the following elements; Objectives are simple, consistent and long term. There is good understanding of the competitive environment which requires that the firm must evaluate both the internal and external environment it is operating in. Objective appraisal of the resources available as opposed to what is required is critical. There must also be effective implementation. Implementation is the most challenging phase of a strategy, yet most important. Communication within the organization must be

clear, cultural barriers taken care of, resources provided and buy in by the persons charged with implementation is very critical.

1.1.2 Penetration Strategies

Penetration strategies refer to creating more opportunities for customers to purchase products or services. For many businesses, the primary challenge for growth is getting their products and services in front of customers. Igor Ansoff (1990), defines penetration as the activity or fact of increasing the market share of an existing product or promoting a new product through strategies such as bundling, advertising, lower prices or volume discounts. Ansoff Matrix tool has been used widely in reference to Penetration strategies.

Ansoff Matrix is a strategic marketing planning tool that links a firm's marketing strategy with its general strategic direction and presents four alternative growth strategies as a table (matrix). These strategies include seeking market penetration by pushing existing products in the current market segments, market development by developing new markets for existing products, developing new products for existing markets and diversification. Diversification refers to developing new products for new markets. A wide range of penetration strategies have been developed over time and these include pricing penetration strategy, new channels of distribution strategies and special incentives.

1.1.3 Insurance Industry in Kenya

Insurance has been with us since time immemorial. Early practice was reported in Europe for over one thousand years with the earliest being marine insurance. However, insurance was unknown in Kenya until the early part of the 20th century. It is the early European settlers who introduced insurance in Kenya. In 1904, the London and Lancashire Insurance Company appointed agents for fire business in Nairobi. In 1922, Royal Exchange Assurance opened a branch office in Kenya and was followed by the Commercial Union in 1929 (Wachira 2008). Until the late 1970s, the Insurance industry in Kenya operated in a rather stable environment. There was little demand for services, the products offered were standardized, government supervision was minimal and competition relatively low. However, following the issuance of the government directive in 1978 which required all foreign insurance companies to be incorporated in Kenya by 1980 and the introduction of the insurance act CAP 487 of the laws of Kenya, the industry has since experienced tremendous challenges.

Many insurance companies sprung up in the 1980s and many more companies were incorporated in the 1990s following the liberalization of the economy. This move has seen the number of registered insurance companies grow from 15 in 1978 to 39 in 2001 and more than 40 in 2012. This, together with the collapse of the giant state owned Kenya National Assurance in 1996 has intensified competition in the industry. The industry was also put on the spot when leading medical insurers Mediplus and Strategies folded up in 2003 and 2005, in controversial circumstances. What is noticeable is that the customers are concentrated in the major towns and the products have remained very traditional. This means that the increase in the number of

companies, forty five (45) in number as at the end of 2011 (AKI report 2011), offering Insurance services has increased at a greater pace than the number of customers seeking the service leading to severe competition. Gross written premium from non life insurance was ksh. 60.67 billion, while that from life insurance business was ksh.30.93 billion representing 15.86% growth compared to 2010. Following the opening up of the Uganda and Tanzania Insurance markets and increased emphasis on globalization and regionalization, the industry now faces greater competition from its neighbors. With the growth on the number of providers, it would be expected that the Insurance penetration would have been enhanced. Insurance penetration is calculated as the ratio of percentage of total insurance premiums to the gross domestic product. Unfortunately, this has not been the case with Insurance penetration at 3.02% as per AKI 2011 report. Insurance penetration is calculated as the ratio of the percentage of total Insurance premiums to gross domestic product.

Other than the Insurance companies ,there are other players in the market comprising of 3668 Agents , 141 Insurance Brokers , 105 Investigators, 14 medical Insurance providers,23 Insurance surveyors, 8 Risk managers, 21 Loss Adjustors and 2 Reinsurance Companies. There are two main Associations which are The Association of Kenya Insures (AKI) and The Association of Kenya Insurance Brokers of Kenya (AIBK). The regulating body of the industry is the Insurance Regulatory Authority. With the signing up of the East Africa Protocol accord in 2010, the territorial limits of operation have widened, and there is need for strategic approaches of reaching these new markets and increase penetration.

1.2 Research Problem

There is need for organizations to adopt appropriate strategies to handle the pressures exerted on them by changes in both the internal and external environment (Oliver, 1991). For effectiveness, any strategic response must embrace, the five phases of strategic intelligence and analysis, strategy formulation, implementation and lastly monitoring, review and updating. Strategy is all about gaining (or being prepared to gain) a position of advantage over adversaries or best exploiting emerging possibilities. As there is an element of uncertainty about the future, strategy is more about a set of options (Strategic Choices), than a fixed plan. A strategy is a plan of action designed to achieve a specific goal.

Despite the fact that insurance has been practiced for over a thousand years world over, it is still a fact that insurance uptake is still very low, not only in Kenya but the world over. The Insurance industry faced difficult economic environment in 2011. Overall gross premium declined by 0.8% in real terms. Premium growth in the industrialized countries was negative 1.1%. Emerging markets had an average growth of 1.3%, (Swiss Re-sigma 3/2012). Statistics show that Global life insurance premiums shrank by 2.7% in 2011. Advanced markets contracted by 2.3%, with the sharpest decline observed in Western Europe (9.8%). The US market recorded moderate growth of 2.9%. Global non life insurance premiums rose by 1.9% in 2011 (AKI report 2011). Insurance penetration is a global problem with developed markets like UK at about 11% and USA at about 8.6% (Swiss Re, Economic Research and Consulting).

Insurance performance in Africa has not been spared either. Life insurance premiums increased by a paltry 1.3% to USD 46 billion in 2011. South Africa remains the dominant market, accounting for more than 90% of the regional life premium volume. Non life premium rose by 3.3% to USD 22 billion. South Africa accounted for half of the continents premium. The penetration of insurance in Kenya is estimated at 3.02%. The penetration of 3.02% in 2011 is compared to 3.1% in 2010. Life insurance recorded a penetration ratio of 1.02% while that of non life insurance was 2.00%. The penetration of Insurance among the Kenyan population is also low compared to other countries outside Africa. A good example is Malaysia which has an estimated 41% of the population covered by some form of life insurance in comparison to Kenya that has less than 1% of the population insured. There is therefore need for establishing why the penetration in Kenya remains low and come up with strategies that can be adopted to enhance uptake and this study seeks to close that knowledge gap.

Several scholars have carried out extensive studies on the Insurance Industry in Kenya. However, these studies have focused on different contexts. For instance, Wanjohi (2002) focused on strategic planning by Insurance companies in Kenya. Lengopito (2004) did a survey on strategic responses to increased competition in the healthcare industry. Wairegi (2004), sought to establish the Strategic responses by Life Insurance Companies in Kenya to changes in the environment. Ogolla (2005) carried out a study on application of generic strategies by Insurance companies in Kenya. Swalehe (2005) covered strategic issue management in Insurance companies in Kenya, while Kitur (2006), carried out a survey of strategic role of ICT among Insurance Companies in Kenya. Wachira (2008) undertook a study on assessment of attractiveness of the Insurance Industry.

All these studies have focused on different areas, other than Insurance penetration. To the best of the researcher's knowledge, no study has been done on this area. A knowledge gap therefore exists and this study sought to bridge this inherent knowledge gap, by addressing the following research question: What are the strategies the Kenyan insurance companies can adopt to enhance Insurance uptake.

1.3 Research Objectives

The objectives of the research were to:-

- (i) Determine the factors causing low insurance uptake in Kenya and the challenges faced by the Insurers in marketing their products
- (ii) Determine the strategies that the Kenyan Insurance Companies can adopt to enhance Insurance uptake.

1.4 Value of the study

The findings of this research will be beneficial to scholars and researchers as it will add to the existing body of knowledge in the field of Insurance and also act as a spring board for further research in the same area and other related areas, in the financial sector. The findings of the research will act as a reference to start up Insurance companies in Kenya and to Developing countries as a whole, since the problem of low Insurance penetration is prevalent in the developing countries.

Policy makers for example, Executives of Individual Insurance Companies in Kenya will be able to use the findings to assist them in formulating policies to achieve growth. The Insurance Regulatory Authority will borrow from the findings so as to come up with structures, and policies to assist the Industry grow and enhance

contribution to the Gross Domestic Product. The findings will also assist the East Africa Region countries who currently are relying on the Kenyan experience and knowledge to grow their markets.

To the Development and Policy makers in Kenya, in reference to Millennium development goals and vision 2030, the findings will be critical because, they will contribute in the areas on food security, reducing maternal deaths and alleviating poverty. This is because; it will give insights on how to develop agriculture insurance, reach the majority of the population for medical insurance and enhance a saving culture through life insurance investment products. Enhanced insurance uptake will directly increase the country' GDP. thus aiding the economic pillar of development under vision 2030.

CHAPTER TWO

LITERATURE REVIEW

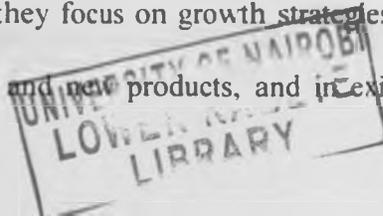
2.1 Introduction

This chapter reviews the literature available on Theoretical Foundation, Concept of strategy and implementation, Insurance penetration and challenges and the Kenyan Insurance sector. It also reviews views that have been put across by various sources on how insurance uptake can be enhanced.

2.2 Theoretical Foundations

Business organizations are facing an unprecedented pace of change and competition. They have to constantly adjust to the environment in order to remain in existence. The organization's external environment is characterized by turbulence associated with globalization, deregulation of markets, changing customer and investor demands and increased competition. Pearce and Robinson, (2003), contend that all organizations are environmental serving and dependent. The environment is highly dynamic and continually presents opportunities and challenges. If organizations are to survive in a turbulent environment, they have to continuously create new sources of competitive advantage (Porter,1985). There is therefore a growing need for organizations to move beyond solving existing problems to continuously improving in the face of changing conditions (Drucker, 1993). Strategy is the fundamental pattern of present and planned objectives, resource developments and interactions of an organization with markets, competitors and environmental factors (Mullins,Walker,Boyd and Lareche,2002).

Ansoff's matrix is widely used tool by firms as they focus on growth strategies. By considering ways to grow via existing products and new products, and in existing



markets and new markets, there are four possible product-market combinations. Ansoff's matrix provides four different strategies and these are market penetration, market development, product development and diversification. The market penetration strategy is the least risky since it leverages many of the firms existing resources and capabilities. In a growing market, simply maintaining market share will result in growth and there may exist opportunities to increase market share if competitors reach capacity limits. However market penetration has limits and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow.

Market development options include pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with specific market segment. Because the firm is expanding into new markets, a market development strategy typically has more risk than a market penetration strategy. A product development strategy may be appropriate if the firms strengths are related to outs specific customers rather that to specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share. Diversification is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. This quadrant of the matrix has been referred to by some as the 'suicide cell'. However, diversification may be a reasonable choice if the high risk is compensated by the chance of a high return. Other advantages of diversification include the

potential to gain a foothold in an attractive industry and the reduction of overall business portfolio risk.

Strategic decisions are complex and are made in situations of uncertainty and affect operational decisions. There is therefore need for integrated approach in regards to decisions that touch on geographical coverage, diversity of products/services or business units and how resources are to be allocated between the different parts of the organization (Johnson,et al.,2005).

2.3 Concept of Strategy

One early definition of strategy was provided by the American business historian, Chandler (1962), defines strategy as the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals. Chandler subscribes to the view that strategy is as much about defining goals and objectives as it is about providing the means for achieving them.

Mintzberg,et al (2002) defines strategy as a ploy, pattern, position and perspective. As a plan, strategy specifies a consciously intended course of action of an organization. These plans are made in advance of actions to which they apply and they are developed consciously and purposefully. As a ploy, strategy is a specific manouver intended to outwit an opponent or a competitor. Strategy as a pattern is consistent in behavior whether it is intended or not. As a position, strategy is a means of locating an organization in its environment. Strategy becomes a mediating force between the

organization and its environment. Strategy as a perspective consists of a chosen position and an ingrained way of perceiving the world.

Strategy helps in providing the long term direction of a firm. This provides a perspective for various diverse activities over time, which enables organizations perform current activities at the same time viewing in terms of long term implications for the probable success of the organization. The development of strategy helps managers identify critical tasks that need to be performed in order to define an organization strategic thrust. Strategy helps an organization to develop a competitive advantage in the market. This in turn, enables the organization to outperform their competitors successfully, Pearce and Robinson (1997). The goal of strategy is to help secure enduring competitive advantage over competitors (Porter, 1985).

According to Johnson, Scholes and Whittington, (2005), strategy exists at three levels namely: Corporate strategy, Business level strategy and Operational level strategy. At the highest level in an organization is the corporate strategy which is concerned with the scope of organizations strategies and how value will be added to different parts of the organization. This includes decisions about the portfolio of products and/or businesses and the spread of markets, geographical coverage, and how resources and to be allocated between different parts of an organization. Senior corporate executives have the lead responsibility for devising corporate strategy. From an Insurance perspective, the decisions made at this level are whether a company should undertake life or non-life business or both. Other decisions would be if to write Islamic Insurance (Takaful) or general business. Number of branches and where as well as whether to expand to other countries are decisions made at this level.

Business Level strategy is about how to compete successfully in particular markets. This concerns the products or services to be developed, in which markets, and how advantage over competitors can be achieved. Decisions at this level include what channels of distribution to use, for example, should the insurance company enter into partnerships with banks for banc assurance. Operational level strategies are concerned with how the component parts of an organization deliver effectively the corporate and business level strategies in terms of resources, processes and people.

Implementation of strategy is the most demanding and time consuming part of strategy management process. It involves staffing the organization with needed skills and expertise, creating a company culture and work climate conducive to successful implementation, budgets that steer ample resources and tying rewards and incentives directly to the achievement of performance objectives (Thompson et al., 2007).

Strategy implementation is the process that turns strategies and plans into actions to accomplish objectives, Pride and Ferrell, (2003),. For it to be successful, the organization should build capability of carrying out the strategic plan, develop strategy supportive budgets and programmes, instill a strong organizational commitment both to organizational objectives and chosen strategy, link motivation and reward structures, develop an information and reporting system to track progress and monitor performance. The organization should exert internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed (Thompson and Strickland, 2007).

Culture is as important as strategy for any organizational success. They are highly intertwined and so focusing on one to the detriment of the other will not bring the desired results. Organizations structure should be compatible with the chosen strategy

and if there is incongruence, adjustments are necessary either for the structure or the strategy itself (Koske 2003). Leadership is needed to effectively implement strategy as it ensures that organizations efforts are united and directed towards achievement of its goals (Pearce and Robinson, 1997). Organizational politics also affect strategy implementation. Organizational politics are tactics that managers use to obtain and use power to influence organizational goals and change structure and strategy to further their own interests. Others include inadequate involvement of both managers and employees ad also ineffective communication.

Strategy implementation has proved hard to many organizations' leaders of business. Holman, (1999) points out that 80% of organizations directors believe that they have good strategies but only 14% believe they implement them well. Camillus, (1999), identified that successful strategy implementation requires linking strategy to performance, communication, incentives, aligning structure to strategy and harnessing the necessary tools and techniques.

Implementing strategies at an industry level is even more challenging. The insurance industry is generally perceived in poor light by the public in general. Failure to pay claims by a single company is likely to be seen as a reflection of insurance companies in general. There is therefore need for concerted effort by all players in the industry and getting this unity of purpose is a big challenge, due to the level of competition by the over 40 companies under license in 2012. The level of consumer awareness is also very low, meaning that basic public education on the benefits of Insurance has to be done and this requires not only a lot of time but also enormous resources. The other possible challenge is reaching the rural mass, and facilitating a pricing method that would work well with their very low income levels, which may not be consistent.

2.4 Insurance Penetration Strategies

Strategy is the fundamental pattern of present and planned objectives, resources developments and interaction of an organization with markets, competitors and environmental factors (Mullins, Walker, Boyd and Lareche, 2002). Organizations define their objectives and strategies through the process of strategic planning that should be long term focused. Strategic decisions are about the long terms direction of the organization, the scope of the organization activities, gaining advantage over competitors, addressing changes in the business environment, building resources and competencies and taking into consideration values and expectation of shareholders (Thompson, gamble and Strickland, 2007).

Marketing mix strategies would work well for Insurance penetration. The term marketing mix was coined by Neil Borden in the article 'The concept of marketing mix' refers to the mixture of elements useful in pursuing a certain market response. The concept is one of the basic ideas of marketing since then. In the 1960, McCarthy proposed the Four P's classification (product, price, place and promotion) which has since been used by firms throughout the world. The 4P's system may well be called the traditional classification of marketing mix (Waterschoot & Van Den Bulte, 1992). Creating awareness is a key element in penetration strategy. Researchers of the Bottom of the pyramid markets stress that innovative and cost efficient promotion methods are necessary to communicate with potential consumers. The usage of social networks such as groups of women (Chikweche & Fletcher, 2012) for direct marketing not only build awareness among potential consumers but also enable a channel of getting feedback from them. Pricing strategy is an important Insurance penetration strategy because most potential consumers of insurance products have low purchasing

power and therefore the need to offer insurance products in packages that are affordable. Anderson (2006) in his study of Asian markets affirms that since bottom of the pyramid consumers have low disposable incomes, products may need to match the cash flow of consumers who frequently receive their income on a daily rather than weekly or monthly basis.

Ansoff Matrix is a useful Insurance penetration tool as it outlines strategies that firm can employ to increase market share. These strategies include Market penetration, market development, Product development and diversification. Product development strategy involves creating new offerings for existing products. The approach may be taken for product innovations which involve developing totally new offerings, product augmentation to enhance the value to customers of existing offering or product line extension to broaden the existing line of offering, for example, adding new covers to an existing insurance product. This Matrix combined with the marketing Mix strategies forms a very good base for insurance penetration strategies.

2.5 Challenges in Insurance Penetration

Insurance penetration is defined as the ratio of premium underwritten in a given year to gross domestic product (GDP). The need for greater insurance penetration in both life and non life segments has been underscored by economic surveys. Insurance penetration has remained low not only in Kenya but in Africa as a whole as demonstrated on the table below

Table 2.1; Summary of insurance performance in selected countries in Africa

| COUNTRY | Non-Life Premium (USD Millions) | Penetration | Life Premium (USD Millions) | Penetration | Total Premium (USD Millions) | Total Penetration |
|-----------|---------------------------------|-------------|-----------------------------|-------------|------------------------------|-------------------|
| KENYA | 714 | 2.00% | 361 | 1.02% | 1,075 | 3.02% |
| ALGERIA | 1,042 | 0.5% | 101 | 0.10% | 1,143 | 0.50% |
| EGYPT | 953 | 0.40% | 1,320 | 0.60% | 2,273 | 1.00% |
| MOROCCO | 1,934 | 2.00% | 799 | 0.80% | 2,732 | 2.80% |
| NIGERIA | 1,726 | 0.70% | 366 | 0.20% | 2,092 | 0.90% |
| TUNISIA | 711 | 1.70% | 114 | 0.30% | 825 | 2.00% |
| S. AFRICA | 10,340 | 2.60% | 36,230 | 9.00% | 46,570 | 11.60% |

Source: "Business Monitor International-2011 estimates. Kenya figures are actual"

During the 38th African Insurance Organization(AIO)'s general assembly and conference held in Zimbabwe in 2011, Mr.Tendai Biti,Zimbabwean Minister of Finance, said that Insurance industry in Africa have multiple problems which had contributed to low level of penetration across the continent. Those problems, he elucidated include low level of awareness, inability to meet the changing and yearning needs of insuring public, and high inflation in some countries like Zimbabwe.

There has been a lot of concern on the low penetration rate from the insurer's umbrella body, Association of Kenya insurers and also the Insurance Regulatory Authority. There is agreement on the fact that there is potential lying unexploited and even though there has been some effort made, this has mainly been disjointed and there is need for organized and strategic approach to increase the penetration. Speaking during the sixth annual national seminar for Insurance Brokers at a Kilifi Hotel in Kenya in March 2011, The commissioner of Insurance, Sammy Makove, said "concerted efforts are needed from all players to devise sufficient incentives that will raise interest and participation in the insurance market. During an AKI Agents forum

held at a Nairobi Hotel in March 2012, Kenya's Insurance players were urged to embrace technology in order to reach the untapped market segment. Munich Re Foundation has established that Africa's booming population, low insurance penetration and increasing demand presents a huge opportunity for growth of micro insurance. Demand is high but availability and take-up is incredibly low and this is a big opportunity for Insurance Providers, (Reinhard 2012). There is need to address the bottom of the pyramid consumer both in terms of packaging the product to address pricing as well as creating awareness and using language that is understood by the potential consumers. For example in Kenya, the products in the country are in the English language, yet the National language is Kiswahili. Worse still there are 49 ethnic groups in the country speaking different languages and a high proportion only understand the mother tongue, yet there are no insurance products translated into various languages.

When reviewing the key issues facing Insurance sector in Kenya, Price water house Coopers Kenya (PWC) noted that the over 40 licensed insurance companies compete for a limited market characterized by low penetration. Kenya's uptake of insurance cover, both at corporate and personal level, remains predominantly in the motor, fire industrial and personal accident (mainly group medical cover) classes. This illustrates a poor attitude towards personal insurance cover in general. Low penetration of insurance in the Kenyan market, relative to other developed markets is attributable to the following factors:

In 2006, USAID contracted Chemonics International and International Insurance Foundation to assess among others, the link between strengthening the insurance

industry and economic growth and development in developing countries. In their publication-Assessment on how strengthening the Insurance Industry in developing countries contributes to economic growth, Key findings based on international data set, were that countries are much more likely to experience sustained growth if their insurance markets develop well and improved market development is closely related to improved financial sector performance. Every country aspires for economic growth and since insurance is a key driver there is need to establish the strategic responses that can increase Insurance penetration.

In Kenya, insurance penetration has been adversely affected by such negative factors like Collapse of Insurance companies, a trend that has persisted over time. Kenya National assurance collapsed in 1996, leading medical insurers Mediplus and Strategies folded up in 2003 and 2005 in controversial circumstances, Stallion Insurance in 2002, LakeStar Insurance Company in 2002, United Insurance Company collapsed in 2005 and currently Blue Shield Insurance Company is under statutory management since 2011. There have been complaints of poor claims payment records and the industry has been affected by fraud emanating from unprofessional conduct of players. On September 8th 2012, the Standard Newspaper carried out a News Analysis article titled, "fraudsters Milking insurance firms dry". There is a general lack of awareness of the benefits of insurance and a lot of people only come to know about Insurance when they buy a car and they are made aware that it cannot move on the Kenyan roads without Insurance. Distribution channels have remained traditional and this was echoed in the AKI Agents forum at a Nairobi Hotel in 2012 when Insurance players were urged to embrace technology in order to reach the untapped market.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on research design, methods of data collection, population and sample size, and data collection instruments and procedures.

3.2 Research Design

Research Design refers to the structure of an enquiry. It is a logical matter rather than a logistical one. Design is a logical task undertaken to ensure that evidence collected enables one to answer questions as unambiguously as possible (De Vaus 2001). This research used a cross-sectional survey. The study adopted a descriptive survey research design as the variables were tested once and an analysis done to establish the causal relationship. The survey design enabled comprehensive analysis by respondents on strategies that Kenyan insurance companies can adopt to alleviate low insurance penetration.

3.3 Population of the Study

The population of the study included all the Insurance companies in Kenya, forty seven (45) in number, the umbrella body of the companies, that is, Association of Kenya Insurers (AKI) and the Regulator, the Insurance Regulatory Authority (IRA).

3.4 Sampling Design

For the Insurance Companies a random sample of 25 companies was picked .The whole population of the industry bodies comprising AKI and IRA was interviewed.

This choice of population and respondents was based on the suggestion of Nachimias & Nachimias (1991) who proposed that adequacy and resources should determine the sample size which should be big enough to enable capturing a variety of responses and facilitate comparable analysis.

Respondents comprised senior executive staff, marketing, customer service and underwriting managers of Insurance firms. The senior executives are involved in strategic planning and execution at the corporate level. The managers are the ones who interact with the clients directly and also the distribution channels like the Agents, as well as implementation of strategies at functional. In addition, they are involved with the implementation of strategies at the operational level. Association of Kenya Insurers and Insurance Regulatory Authority gave information in relation to regulations and industry policies. They provided information on industry initiatives, for example Regulatory framework, and other common undertakings.

3.5 Data Collection

The study used a semi structured questionnaire containing both closed and open ended Questions for primary data. It was administered in two ways that is, personal interview, and mail survey through drop and pick method. The mail survey was chosen where the respondent was very busy or not available. This enabled collection of data that would have been difficult to get.

Personal Interview was used where the respondent was able to give appointments and also instances where follow up was required. The questionnaire was edited as recommended by Bryman & Cramer (1997), that data should be edited to ensure

consistence across respondent and locate omissions. Secondary data was collected through review of journals, articles and literature already done by other scholars on use of strategy to enhance insurance uptake.

3.6 Data Analysis

Data was tabulated and classified into sub-samples for common characteristics. The responses were coded to enable analysis of the data by use of descriptive statistics. Frequencies were converted to percentage for easier interpretation, analysis and presentation of the findings of the research. This method was deemed most appropriate as it ensured that information collected was comprehensively analyzed (Cooper & Schindler, 2001).

CHAPTER FOUR

DATA ANALYSIS, FINDINGS, INTERPRETATION AND DISCUSSION

4.1: Introduction

This chapter presents the analysis, findings and interpretation with regard to the objective and discussion of the same. The research objectives were: to determine the factors causing low insurance uptake in Kenya and the challenges faced by the Insurers in marketing their products as well as to identify the strategies that the Kenyan Insurance Companies can adopt to enhance Insurance uptake.

The data was collected from a sample of 25 insurance companies, The insurance Regulatory Authority and The Association of Kenya Insurers. Respondents were senior executive staff, marketing, customer service and underwriting managers of Insurance firms. The findings are presented in percentages and frequency distributions and narrations.

4.2: Profiles of the Respondents

4.2.1 Response Rate

A total of 27 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 25 questionnaires issued to Insurance companies, used in the sample, 18 were returned and the remaining 7 were not returned. The returned questionnaires' represented a response rate of 72%, which the study considered adequate for analysis. The one questionnaire each, issued to the insurance Regulatory Authority and the Association of Kenya Insurers were returned, representing a 100% response from the industry Regulatory bodies.

4.2.2: Distribution of the Respondents by Position in the Organization

The questionnaires were sent to persons who interact with customers most of their working time because they have an opportunity to hear complaints put across by customers on the products and services offered. Included also were staff who interact a lot with the distribution channels such as Agents, and Brokers because they are able to get information on public complaints received by Agents and Brokers as they distribute Insurance products and services. Most of the respondents (33.33%) were Underwriting Managers, followed by marketing personnel at 27.78%, customer service personnel at 22.22% and Senior Executive Staff at 16.67% respectively. All the categories of the targeted respondents in the study participated, reflecting a balanced view of the issues in question.

4.2.3: Length of Service with Organization (years)

The results below indicate the number of years the respondents had worked with the Insurance firms in respect to which, they were providing information.

Table 4.1

| Number of service years | Frequency | Percent |
|-------------------------|-----------|---------|
| Less than 5 years | 11 | 55 |
| 5 - 10 years | 6 | 30 |
| Over 10 years | 3 | 15 |
| Total | 20 | 100.0 |

The results presented in table 4.1 shows that the number of years of service in the current organization varied from a period of less than 5 years to over 10 years. Specifically majority (55%) of the respondents had worked in their respective organizations for less than 5 years, 30% had worked for a period of 5 to 10 years and the rest 15% had had worked for a period of over 10 years. This shows that there is

high mobility of employees within the insurance industry. This movement implies that there is little difference between one organization and the next and employees find it easy to settle in so long as they are paid more money by a next employer. The products sold are similar due to low level of innovation. In addition, it implies that companies are not keen on investing on long term goals of developing employees hence keep poaching from each other and this impacts negatively on the level of industry professionalism which is another reason for low insurance penetration.

4.3 Reasons for Low Insurance Penetration and Challenges faced by Insurers in Marketing their Products

4.3.1 Reasons for Low Insurance Uptake

The respondents indicated various causes of low insurance uptake in the country ranked percentage wise as follows, low knowledge and lack of awareness at 87.5%, negative perception of insurance due to historical reasons by potential uninsured public at 85%, poor service at 80% , recent collapse of insurance firms at 80%, cultural and religious beliefs like merry go round and harambee mentality at 75% , cumbersome claims procedures at 78% , poor marketing strategies at 67%, poverty and lack of savings culture amongst Kenyans at 57%

Other reasons were: Low returns as compared to other investment options, unhealthy competition by insurers leading to low profit margins, frauds and dishonesty by insured and service providers, legal barriers, collaboration gaps with stakeholders, inappropriate products, insurance being considered to be for the rich and limited distribution channels by insurance companies.

The findings presented show the respondents were of the opinion that there has been a moderate trend in uptake of insurance products over the past 5 years while a significant 38.89% felt that there has been a slow trend in uptake of insurance products over the past 5 years.

4.3.2 Challenges Insurance Companies Face In Marketing Their Products

The study identified the following challenges insurance companies face in marketing their products; 87% of the respondents felt companies faced resistance caused by historical negative perception, 85% indicated lack of innovation and creativity amongst insurers particularly life assurance companies, 80% indicated legal language in documents that creates a perception that a lot is in the hidden print, 78% felt cut throat competition for the same business was a challenge, 75% indicated adverse publicity of one of the insurance company which ends up affecting all others, 67% indicated social insurance common in many Kenyan communities, 57% mentioned low capital levels and profit margins, and another 47% highlighted emergence and increased risks like terrorism, political risk,

The legal framework which requires insurance cover arranged on annual basis is a challenge because of the low purchasing power of the majority of the population who would be in favour of monthly covers or short period cover period. There is overreliance on Agents as a distribution channel particularly at the rural areas. The level of Insurance knowledge by the Agents is low and this has caused misselling. There is limited use of technology especially the mobile platform which would reduce distribution costs and consequently lower the cost of Insurance allowing more people to afford. General lack of awareness of the benefits of Insurance is prevalent and the

distribution costs channels are expensive and so is media advertising. The products in the market are in the English language and that causes a communication barrier in terms of language as Kenya has many ethnic languages and a big portion of the population does not understand the English language well. In additions a lot of the products do not meet the needs of the customers in terms of coverage and payment mode.

4.4 Strategies Kenyan Companies can Adopt to enhance Insurance Penetration

4.4.1 Current Strategies of the firms towards Accelerating Insurance Uptake

When asked to comment on the current strategies used by the firms towards increasing the written premium, the respondent indicated that firms are using premium reductions as a tool to increase market share in contravention of guidelines given by the Insurance Regulatory Authority. This strategy is however not sustainable in the long run because some organizations are charging uneconomical rates and this could cause some firms to go under. More recently some firms have take up innovation as a way of accelerating uptake and there has been a serious lobby on change of Law to allow Banks to distribute insurance products. There has also been an upward trend towards increase of consumer awareness and it is working positively. There is therefore need for firms to relook at the strategies in use and identify the ones that are working positively and are sustainable and those that are not good. This is with a view to continuing with the good ones and identifying others that can be used so that insurance penetration can be improved.

Majority of the respondents (75%) further indicated that level of Implementation of the Strategies was above average (very good/good). This implies that if the right strategies are identified, then the positive effect will quickly be felt because firms are keen on implementing agreed strategies. When asked to state factors which could enhance or accelerate the uptake of insurance, the respondent indicated that insurance uptake could be enhanced by various factors ranked percentage wise as follows; increased awareness (90%), improvement in standard of living (87%), introduction of new innovative products (82%), aggressive marketing by insurance companies (76%), technological advancement leading to easier access to information and reduction in transaction costs (75%), embrace non conventional distribution channels such as bancassurance (72), introduction of micro insurance and conduct surveys to understand the gap in the market (69%), and increased loan uptake leading to forced insurance to secure the financiers interest in the investment (62%),

4.4.2 Extent to which Adoption of Strategies Increases the Written Premium

The respondents were asked to state the extent to which adoption of good strategies increases the written premium. The results are shown in table 4.2. From the findings in year one the increase was on average below 10% (mean less than 2.5), in year two the increase was between 20 % and 30% ($2.5 < \text{mean} < 3$) and in both year three and four the increases was over 30% (mean > 3). This shows that adoption of strategies, main ones being, improvement of distribution channels, consumer education and awareness and improvement of service standards has steadily increased the written premium.

Table 4.2: Extent to which Adoption of Strategies Increases the Written Premium

| | Mean | Std. Deviation |
|--------|--------|----------------|
| Year 1 | 2.0556 | 1.16175 |
| Year 2 | 2.8333 | .78591 |
| Year 3 | 3.3889 | .69780 |
| Year 4 | 3.2778 | .95828 |

4.4.3 Strategies that would Contribute to Premium Growth

The respondents were in agreement that; improvement of distribution channels, consumer education or awareness, customer service, review of products offered, perception of the industry and improved Service standards by all in the industry, in that order were the main factors that would contribute to premium growth. Based on these findings, the implication is that for Insurance penetration to improve, the strategies to be used by companies have to be centered on these factors.

Table 4.3: Factors Contributing to Premium Growth

| Factors | Counts | Agree | Do not agree | Total |
|--|---------|-------|--------------|-------|
| Improve distribution channel | Percent | 92.86 | 7.14 | 100 |
| Consumer education or awareness | Percent | 87.5 | 12.5 | 100 |
| Service standards by all players in the industry | Percent | 77.8 | 22.2 | 100 |
| Customer service | Percent | 85.7 | 14.3 | 100 |
| Review of products offered | Percent | 85.7 | 14.3 | 100 |
| Perception of the industry | Percent | 77.8 | 22.2 | 100 |

Improvement of distribution channels means that insurance firms have to embrace technology so that they can take advantage of the mobile platform to reach as many customers as possible without physical presence. This way they will be able to save on cost and this advantage can be passed on to consumers enabling many more to afford purchase of Insurance. When enhancement of distribution channels is combined with consumer education through radio and print media as well as the mobile phone, the effect on penetration is likely to be felt a lot faster. Review of products to make them simple to understand, grant cover as required by consumers and when required will go a long way to enhance uptake. This must however go hand in hand with provision of good service, so that payable claims are paid within a few days and also communication on position of documents or claims process is communicated within frequent agreed intervals.

4.4.4 Role of Regulators in Insurance Uptake in Kenya

The respondents were of the opinion that the Regulator is playing a vital role to encouraging the Insurance uptake in Kenya. Supervision of insurance companies has been intensified requiring that companies adhere to corporate governance and top management meets certain set qualifications, ownership of companies has been revised to create stability and there is increased visibility of status of Insurance companies as they are required to post their results in the newspapers. Creation of public confidence has also been at centre stage with the Regulator requiring all companies to create a complaint handling desk at their offices. The regulator has also taken up the consumer protection oversight role to handle disputes between the Insurance Companies and claimant taking up complaints from the public and anti

fraud unit has been set up where all issues relating to fraud in the industry are reported and handled.

Public education to create awareness has been a major role and there has been a lot of advertising on the benefits of insurance in the local dailies, radio stations and television. Trade fairs are being organized all over the country to reach the general public. The legal and regulatory framework to encourage uptake, is being revised to widen the distribution channel network to include banks and also set minimum qualifications for Agents to ensure that they communicate correct information to the buyers of Insurance. It is the responsibility of the Regulator to vet and license various channels such as agents, brokers and banc assurance, ensuring compliance amongst the industry players, creating an enabling regulatory legislation to allow use of alternative distribution channels and safeguard the interest of the consumers.

The Regulator is introducing simplicity in the Insurance contract by standardizing the Insurance policies in a language that is easy to understand. The office has also played the role of encouraging use of technology like the mobile phone platform to reach the rural masses in signing for cover, making up payment and also lodging of claims.

The Association of Kenya Insurers is also playing a key role in lobbying members to uphold professionalism. The ethics committee within the body handles issues of members' misconduct so that the image of the industry is kept high. Through Common fund contributed to by all members, the body been carrying out public campaigns to increase visibility of Insurance and create awareness to the general public. The Association provides a forum where member companies meet and discuss issues that are of industry concern and seek solutions. Low Insurance penetration has been a major concern.

4.4.5 Other Strategies that Would Assist in Insurance Penetration

When asked to state other strategies that would assist in insurance penetration the results were as outlined in the table below, that is, 92 % of the respondents rated product innovation, and 87% rated vigorous marketing targeting the youth and low income earners as major strategies that should be taken up by Insurance firms.76% of the respondent felt that Price modeling and flexible payment plan would contribute greatly to enhancement of Insurance penetration while 62% of the respondents felt that making insurance compulsory e.g. medical and life covers, training and empowering insurance agents would go a long way to increase penetration. Another 48% percent of the respondents indicated that Inclusion of Insurance as a subject in education sector right from primary school level, online distribution of products, government subsidies on micro insurance/agriculture and partnering with mobile phone service providers, to increase the base would greatly assist in increasing insurance penetration in the country.

Table 4.4: Other Factors That Would Assist In Insurance Penetration

| Factor | Percentage |
|---|-------------------|
| Product Innovation | 92% |
| Vigorous Marketing to Youth and Low Income Earners | 87% |
| Price Modeling and Flexible Payment Plan | 76% |
| Making Insurance Compulsory | 62% |
| Insurance as a Subject in Primary and Secondary Schools | 48% |

CHAPTER FIVE

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.0: Introduction

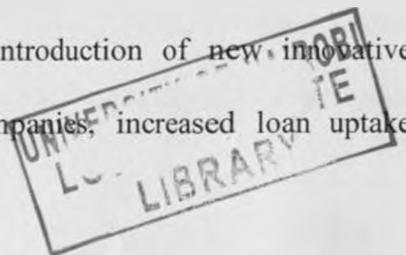
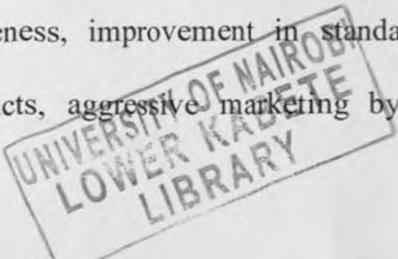
This section discusses the main findings, draw conclusions and make recommendations.

5.1 Summary

The objectives of the study were; to determine the factors causing low insurance uptake in Kenya as well establish the challenges faced by the Insurers in marketing their products and identify the strategies that the Kenyan Insurance Companies can adopt to enhance Insurance uptake. Overall, there is a very low penetration rate of insurance services in the country, that is, the rate is at 3.02% of the GDP for the year 2011. Notable was the growth in both gross written premium for the industry at 15.9% and gross written premium for non life at 15.86% during the period 2010 and 2011.

The low penetration of insurance service in the country is as a result of low consumer knowledge, lack of awareness, poverty, negative perception of insurance due to historical reasons by potential uninsured public, Low returns as compared to other investment options, poor service, cultural and religious beliefs like merry go round and harambee mentality, poor marketing strategies, cumbersome claims procedures and recent collapse of insurance firms and lack of savings culture amongst Kenyans.

The study found out that insurance uptake could be accelerated through, increased awareness, improvement in standard of living, introduction of new, innovative products, aggressive marketing by insurance companies, increased loan uptake



leading to forced insurance to secure the financiers interest in the investment, technological advancement leading to easier access to information and reduction in transaction costs, embrace non conventional distribution channels such as banc assurance, introduction of micro insurance and conduct surveys to understand the gap in the market.

The main challenges facing insurance companies in marketing of their products were resistance caused by historical negative perception, low capital levels and profit margins, emergence and increased risks like terrorism, political risk, lack of innovation and creativity amongst insurers particularly life assurance companies, cut throat competition for the same business, legal language in documents that creates a perception that a lot is in the hidden print, adverse publicity of one of the insurance company and social insurance common in many Kenyan communities.

The study further indicated that regulators roles in insurance uptake in Kenya includes supervision of insurance companies, taking up complaints from the public, public education, structuring and licensing various channels such as agents, brokers and banc assurance, ensuring compliance amongst the industry players, creating an enabling regulatory legislation to allow use of alternative distribution channels and safeguard the interest of the consumers.

It was found that growth in premium was as a result of distribution channel, customer service and review of products offered by the firms. The respondents indicated that other strategies which could be used to increase insurance penetration were product innovation, vigorous marketing targeting the youth and low income earners, price

modeling, flexible payment plan, making insurance compulsory e.g. medical and life covers, training and empowering insurance agents, including insurance as a subject in education sector right from primary school level, online distribution of products, government subsidies on micro insurance/agriculture and partnering with mobile phone service providers to increase the base would be assist in increasing insurance penetration in the country



5.2: Conclusions

The study concludes that low insurance uptake in Kenya has been caused by various factors which include lack of knowledge and awareness by the intended consumers, inaccessibility of Insurance as the distribution channels are wanting, products on offer that do not meet the needs of the consumer amongst others. The role of the regulator in enabling penetration is critical particularly in ensuring the right legal framework to allow for more distribution channels especially the bancassurance. There is need for the regulator to play a centre role in ensuring consumer protection so that the negative perception held by the public about nonpayment of claims by Insurance companies is corrected. The Insurance companies need to adopt strategies that will address all the challenges identified and ensure proper implementation. Once this is done, the researcher concludes that Insurance penetration will be greatly enhanced.

5.3: Recommendations of the Study

Based on the findings and conclusions, the study recommends that in order to enhance Insurance uptake, there is need for concerted effort by both the Insurance Regulatory authority and the individual Insurance companies in implementing strategies that will ensure that the various challenges identified as hindering uptake are dealt with. The

Insurance companies need to be more creative and come up with innovative products that will address the needs of the consumers. Public education needs to be carried out on the benefits of Insurance and risk management so that the traditional methods of addressing problems when they have already occurred through harambees and other community contributions are replaced with upfront risk management.

5.4: Limitations of the Study

The Study focused on Insurance companies who are the suppliers of the Insurance products and left out the distributors of the products like the Brokers and Agents who would have had some input, based on the feedback they get from customers as they sell the available products. Also omitted were the consumers themselves and the general public who would have given an insight as to what prevents them from buying the products. There is therefore a possibility that some factors leading to low insurance uptake that could have been brought out by these groups were left out.

5.5: Suggestions for further Study

This study concentrated on Insurance companies and the Regulatory Authority. Other studies should be undertaken where the distributors of the insurance products, that is, the brokers and Agents are interviewed, as well as the general public. This will ensure that all Stakeholders contributions are taken into consideration in the attempt to alleviate the problem of low Insurance penetration in Kenya

5.6 Recommendation for Policy and Practice

Insurance is currently contributing very little to the GDP, yet the potential is there and this requires to be harnessed so as to create wealth and improve the standards of living

for the people of Kenya thus aiding the economic pillar of development under vision 2030. It is recommended that Insurance be introduced as a subject in primary schools so that as children are growing up, they are introduced to the culture of risk management and saving. The government can offer incentive schemes where they subsidize premiums in the area of agriculture Insurance as well a medical, and then set up mechanism for sustainability in the long term. This will greatly contribute to the achievement of the millennium development goals in the area of food security, reducing maternal deaths and alleviating poverty.

REFERENCES

- Alexander, L.D. (1991). *Strategy implementation: nature of the problem*, International Review of Strategic management, vol.2 No.1 pp 73-91
- Ansoff H.I and McDonnell, F. (1990). *Implanting strategic Management*, (2nd ed). New York;Prentice Hall
- Association of Kenya Insurers, AKI *REPORT 2010*
- Association of Kenya Insurers Report: *Potential Distribution Channels for Insurance Business in Kenya Executive Summary*, SBO Research November 2010
- Biti Tendai(2011) *38th Africa Organization(AIO) general assembly and conference*. Victoria Falls,Zimbabwe
- Bryman A and Cramer D (1997), *Quantitative data analysis with SPSS for windows* 29, west, 35th street, New York.
- Carmillus, J. (1999). *Praxis:a quarterly journal of management.The Hindu business line*.Volume2, issue4, November
- Chandler.A.D. (1962) *Strategy and structure*, MIT Press
- Chikweche T. & Fletcher. 2012. *Undertaking qualitative research at the bottom of the Pyramid: From theoretical considerations to practical realities*. Qualitative Market research: An international journal
- De Vaus, D.A.2001, *Research Design in Social Science*. London: Sage
- Dorfman,Mark S. (2001), *Introduction to Risk management and Insurance*, (7th Edition) Saddle River,NJ: Prentice hall International
- Drucker. P. (1993). *We need to measure not count*. Wall Street Journal
- G.A Cole (1997). *Strategic Management; Theory and Practice* (2nd Edition)

- Hofer,C.W., & Schendel,D.E. (1978). *Strategy formulation: Analytical Concepts*. St Paul:West Publishing
- Holman,W. (1999). *Strategic management- process, content and implementation*. Oxford UK, orford university press
- John A. Pearce I and Richard B. Robinson(2011). *Strategic management: Formulation, Implementation and Control* (12th Edition). McGraw-Hill International Edition
- Johnson,Scholes.Whittinton(2005).Exploring corporate strategy (7th ed) Pearson Educational Publisher, England
- Koske, F.K. (2003). *Strategy implementation: the case of Telkom Kenya ltd*, unpublished MBA project, University of Nairobi.
- Lengopito F.D (2004), *Strategic responses to increased competition in the healthcare Industry. The case of private insurance sector*, Unpublished MBA project, University of Nairobi
- Mintzberg,H.,Joseph B. Lampel,James Brian Quinn,Sumantra Ghosha(2002).*The strategy process* (4th Ed),Pearson Education Publishers' Ltd
- Mullins, John; Walker, Orville;Boyd,Jr.Harper;Larreche,Jean-Clude.*Marketing Strategy: A decision-Focused approach* McGraw-Hill/Irwin, 2002
- Nachimias V.F and Nachimias D (1991), *Research methods in social sciences*, (5th ed.), upper saddle River, NJ Prentice Hall
- Ogolla Margaret (2005), *Application of Porter's Generic strategies by Insurance Companies in Kenya*, unpublished MBA project, University of Nairobi
- Oliver Christine (1991), *Strategic responses to institutional process*. Academy of Management review

- Pearce,A.Robinson,B. (1997),(6 ed). *Strategic Management: Formulation, implementation and Control*. McGraw Hill
- Pearce,A.Robinson,B (2011). (12 ed) *.Strategic Management:Formulation, implementation, and Control*. McGraw-Hill
- Porter,M.E (1998). *Competitive advantage: Creating Superior Performance*. New York: free press.
- Porter,M.E (1985). *Competitive Advantage*. The free Press
- Pride,W.M,Ferrel,O.C (2003). *Marketing concepts and Strategies*. Boston: Houghton Mifflin Company.
- Kitur Stanley (2006).*A survey of strategic role of ICT among insurance companies in Kenya*, unpublished MBA project, University of Nairobi
- Swalehe Mkamunduli (2005), *Strategic issue management in Insurance Companies in Kenya*, unpublished MBA project, University of Nairobi
- Thompson,A.,Strickland A.J,John Gamble (2007).*Crafting and executing strategy* (15th Ed.). Mc Graw hill Irwin
- Rudolf L., Andrew R.(2012)*Topics Magazine ,The fast track to new business*, (Munich Re)
- Wachira Lydia(2008).*Assessment of attractiveness of the Insurance Industry*, unpublished MBA project, University of Nairobi
- Wanjohi P.N (2002).*An investigation on aspects of strategic planning by insurance Companies in Kenya*, unpublished MBA project, University of Nairobi
- Wairegi B.I(2004).*The strategic responses by Life Insurance Companies in Kenya to changes in the environment*, Unpublished MBA project, University of Nairobi
- Walter Van Waterschoot,Christphe Van Den Bulte (1992). *The 4p.classification of the Marketing Mix revisited*. *Journal of Marketing* (4,) 83-93

APPENDICES

Appendix 1: Letter from University of Nairobi Authorizing Research work

Appendix 2: Questionnaire-Insurance Industry

Please answer the following questions

General: Respondents Profile

- 1. Name of the firm.....
- 2. Respondent's position.....
- 3. Number of years of service with the firm.....

Section A: Degree of Insurance Uptake and the Related Challenges

- 4. What is your share of the total insured market.....
- 5. What is the total/average national uptake of insurance.....
- 6. What would you say are the reasons that have caused low insurance uptake
 - i.....
 - ii.....
 - iii.....
 - ...
 - iv.....
 - ...
 - v.....
- 7. What has been the trend in uptake of insurance products over the past (say 5 years)
 Fast Moderate Slow
- 8. What factors have enhanced or accelerated the uptake of insurance

.....
.....
.....
.....

9. What challenges are faced by insurance companies in Kenya in marketing their products

.....
.....
.....
.....

10. What role do the regulators play in encouraging insurance uptake in Kenya

.....
.....
.....
.....

11. Please indicate the gross written annual premium

2007.....Ksh
2008.....Ksh
2009Ksh
2010Ksh
2011Ksh

Section B: Firm strategies to improve uptake

1. Please indicate the current strategy of the firm towards increasing the written Premium

.....
.....
.....
.....
.....
.....

2. What would say is the level of implementation.

Very good Good Average Poor

3. In your view, to what extent has adoption of current strategies increased the written premium? Please tick the appropriate box for each year.

| | | | | |
|---------|------------------------------------|------------------------------------|------------------------------------|-----------------------------------|
| 1 year | <input type="checkbox"/> Below 10% | <input type="checkbox"/> Below 20% | <input type="checkbox"/> Below 30% | <input type="checkbox"/> Over 30% |
| 2 years | <input type="checkbox"/> Below 10% | <input type="checkbox"/> Below 20% | <input type="checkbox"/> Below 30% | <input type="checkbox"/> Over 30% |
| 3 years | <input type="checkbox"/> Below 10% | <input type="checkbox"/> Below 20% | <input type="checkbox"/> Below 30% | <input type="checkbox"/> Over 30% |
| 4 years | <input type="checkbox"/> Below 10% | <input type="checkbox"/> Below 20% | <input type="checkbox"/> Below 30% | <input type="checkbox"/> Over 30% |

4. The following factors would contribute in premium growth.

| <u>Agree</u> | <u>Do Not Agree</u> |
|--|---|
| i. Improve regulatory framework | <input type="checkbox"/> <input type="checkbox"/> |
| ii. Improve distribution channel | <input type="checkbox"/> <input type="checkbox"/> |
| iii. Consumer education or awareness | <input type="checkbox"/> <input type="checkbox"/> |
| iv. Service standards by all players in the industry | <input type="checkbox"/> <input type="checkbox"/> |
| v. Customer service | <input type="checkbox"/> <input type="checkbox"/> |
| vi. Review of products offered | <input type="checkbox"/> <input type="checkbox"/> |
| vii. Use of information technology | <input type="checkbox"/> <input type="checkbox"/> |
| viii. Review of pricing | <input type="checkbox"/> <input type="checkbox"/> |
| ix. Perception of the industry (image of the industry) | <input type="checkbox"/> <input type="checkbox"/> |

5. Please indicate other strategies that in your view would assist in Insurance penetration.

.....
.....
.....

Thank you.

Appendix 3: Letter to respondents

Beatrice Gitau
P.O Box 5730-00100
Nairobi
Tel 0722 786628

Dear Respondent,
Re: Request for participation in research work

I am a postgraduate student pursuing a master of Business Administration (MBA) degree at the University of Nairobi, School of business. As part of my requirements for the award of the degree, a student is expected to carry out and submit a management research project.

I am currently conducting a research on strategic responses by Kenyan Insurance Industry to alleviate low insurance penetration. The information will be treated with utmost confidentiality and will only be used for academic research purpose. Should you require the findings of this research, I will not hesitate to provide the information. Your participation is highly appreciated.

Yours Faithfully

Beatrice Gitau
MBA Student



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
 Nairobi, Kenya

DATE.....04-10-2012

TO WHOM IT MAY CONCERN

The bearer of this letterGITHY.....KENNEDY.....NIGEL.....

Registration No.....DG1/G1694/2010.....

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

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

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

Thank you.



JMMW
JIMMACULATE OMANG
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE