

**CHALLENGES OF CUSTOMER RETENTION BY MADISON
INSURANCE COMPANY LIMITED IN KENYA**

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OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE
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DECLARATION

This research project is my original work and to the best of my knowledge has never been presented for award of a degree in any other University.

Signature.....

Date.....

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D61/69946/2011

This research project has been submitted for examination with my approval as the university Supervisor.

Signature.....

Date.....

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My first and foremost thanks go to Almighty God for support he gave me while writing and compiling this research project, not forgetting my Supervisor and moderator, for the timely advice and guidance on this Research Project.

Thanks you all and God bless.

DEDICATION

I dedicate this work to my parents and the entire family for their moral support and financial assistance throughout this process.

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LIST OF ACRONYMS

AKI: Association of Kenya Insurers

IRA: Insurance Regulatory Authority

ABSTRACT

The objective of any business is to be the leading in its industry. The insurance industry is a very unique industry with challenging services that need to be managed effectively to ensure that the customers that have been hard won should not leave the business to go elsewhere. This then means the company must put on measures to ensure maximum retention if it is to excel. Nevertheless, in trying to put in place such measures, the company will face problems that may not allow it achieve the goals to their expectations. The purpose of this study was to identify the challenges of insurance companies in Kenya face in trying to retain their customers with a case study of Madison insurance company. The specific objectives of the study included identifying the customer satisfaction measures employed by Madison Insurance Company and finding out the challenges that face the company in satisfying their customers' needs. This research, being a case study was conducted through interviews with the research instrument being the interview guide. Five senior employees of the company were interviewed with a view of finding out the current retention structures in place and the challenges faced in the process of trying to retain their customers. The data collected was analysed through content analysis. The study found that there are various measures put in place to retain the customers at the company including a dedicated customer service department, streamlining claims management, renewal notices management and regular follow ups to the clients. The main challenges faced in trying to retain the customers were internal and external. The internal challenges still remained claims processes and notices management. Most of the challenges were externally influenced through competition, pricing, customer expectations, nature of customers, trust among others. These findings indicate the customer retention is still a problem in the insurance industry which calls on the stakeholders to review some of the challenges to assist the industry grow and improve market share, which is healthy for all the stakeholders including the government.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

A business can pursue several other objectives, but the very survival of any business depends on how best it can capture and retain its market in order to improve its revenues. Satisfaction of customers is used for the indication of future possible revenue (Hauser, Simester & Wernerfelt, 1994). It has been noted that customer satisfaction is the necessary foundation for the company to retain the existing customers (Guo, Xiao & Tang, 2009). A market is the set of actual and potential buyers (Armsrong, G. and Kotler, 1999). The customers are the driving force behind the success of any company and their management will ensure the company succeeds in its objective of making profits. Customer retention is therefore a major concern for any business in the competitive environment of today.

The insurance industry is a very unique industry with challenging services that need to be managed effectively to ensure that the customers that have been hard won should not leave the business to go elsewhere. Customer retention for insurance companies is therefore a matter of critical concern for any manager in an insurance company. The loss of key customers to an insurance company can be devastating as they can walk away with huge premiums and impact on the production of a particular period. With little differentiation between product offerings, it is extremely challenging for insurance companies to retain customers, resulting in poor loyalty levels and increased costs. Retention of the right policyholder is imperative for profitability. The cost of acquiring new customers can be up to 10 times the cost of retaining an existing customer. In the face of challenging economic times, pressing regulatory changes, growing customer dissatisfaction in the unique industry and increased competition for market share, insurance companies are struggling to maintain their balance in the turbulent environment. Customer retention for the industry is a real challenge.

1.1.1 Concept of Insurance

Insurance is a social device for spreading the chance of financial loss among a large number of people. By purchasing insurance, a “person” shares risk with a group of others, thereby reducing the individual potential for disastrous financial consequences. Transacting insurance includes soliciting insurance, collecting premiums and handling claims (Insurance Schools Inc., Insurance Concepts & Principles)

Insurance represents an important method of meeting the financial consequences of risk. It has been traditionally defined as the business of transforming event (insurable) risks by means of two-party contract. Insurance provides a mechanism for the transfer of the cost of risk rather than the transfer of risk. Insurance contract is a contract in which a party purchases the right to be indemnified by another party for insured losses. Insurance companies are risk transformers. Insurance companies supply financial innovations to their customers that allow the insureds to transform their risks (Culp, 2001).

Insurance is vital to a free enterprise economy. It protects society from the consequences of financial loss resulting from mishaps to life and property. The person seeking to transfer risk, the insured, pays a relatively small amount, called premium, to the insurer, which issues an insurance policy in which the insurer agrees to reimburse the insured for any losses covered by the policy. It is the process of spreading the risk of economic loss among as many as possible subject to the same kind of risk and is based on the laws of probability and large numbers. There are many perils that society faces, these are: earthquakes, hurricanes, tornados, flood, drought, arson, theft, fraud, vandalism, contamination, pollution, terrorism. Insurers are able to provide coverage for virtually any predictable loss. One of the smartest moves any business owner can make is having the appropriate kinds of insurance. Not only does this protect cost of business assets from risks that could very well reduce them to nothing if a catastrophe struck, it also safeguards cost of personal assets, which are often on the line, from a liability point of view (Siegel & Yacht, 2010)

The insurance industry in Kenya has been under intense pressure to change for the last few years. This is due to several reasons. In addition to profound, regulatory changes, the

industry had to deal with noticeable changes in client behavior – which has not only started with the triumphal procession of the internet as medium of information. The changing framework conditions confront insurers with increasing strategic challenges and require a conceptual strength of strategy. Successful insurers find answers to the current strategic issues in order to make their business fit for the future and above all to differentiate it from competitors – thus to make it “different”. In a conservative industry like insurance, there will be more survivors and fewer fast followers, expansionists and innovators. However, having a clear strategic direction about ‘what you want to be’ will be critical in determining how you design your business to manage the risks and exploit the opportunities that come your way (Pwc, insurance 2020, 2012).

1.1.2 Customer retention

A customer is the user or the consumer of a company’s products or services. A customer is the most important person or organization to any business. A customer is not dependent on the business. Instead, the business is dependent on the customer. In the terms of the marketing concept, the customer is central and organizations meet their objectives by discovering and staying in touch with their potential customers’ needs and wants and then satisfying them by producing an appropriate product.

Insurance companies are service organisations exchanging premiums for a return of bearing the risks that may be suffered by the policyholders. The policyholders form the customers of the insurance companies. Given the uncertainty in the nature of business run by the insurance companies, customers choose the companies mostly based on price. Insurance companies have to work extra hard to retain their customers.

According to Armstrong and Kotler (2008), it is important for firms to implement the right marketing strategies in order to succeed. Traditionally, firms have focused their marketing strategies around attracting new customers and increasing their market share. However, due to globalization, most industries and markets are becoming more and more competitive forcing significant changes in the way firms do business. In order to retain customers in industries characterized by high competition like insurance in Kenya, firms

need to meet each individual customer's needs and expectations. Gumesson (2002) argues that it is the value of the customers' experiences with the product or service that is important, therefore, customers' needs are important to consider when developing products and services.

An American Company, Nationwide Insurance found that a 1% increase in customer retention increased annual premiums by \$1 million (Insurance Technology, Datamonitor, 2008). 26% of insurance customers will switch insurance providers, based solely on a bad experience with the contact center. Insurance customers that are dissatisfied are 40% more likely to tell others about their bad experience (American Customer Satisfaction Index). Satisfied customers are 50% more likely to listen to a sales offer, while dissatisfied customers (if they choose to listen) are twice as likely as satisfied customers to decline an offer after listening to it (Maritz, 2008).

Currently, the practice of insurance companies in Kenya has been largely based on pricing, customer service and claims management. Insurance companies have been offering discounts on premiums, discounts on not reporting a claim, quick service and prompt claims settlement as some of the strategies used to retain customers. However, as the customers become more informed and competition intensifies, insurance companies have to go an extra mile to do more than the traditional methods of retaining customers.

1.1.3 Insurance Industry in Kenya

According to Insurance Regulatory Authority, Kenyan insurance industry had a membership of 48 insurance companies and 3 Reinsurance companies by the end of 2013. Out of this, 12 insurance companies carried out long term business, 24 carried out general business while 12 undertakes composite business (IRA Annual Report, 2013). From the concerns of the industry players in the Kenyan insurance industry, the industry players are just too many to benefit from the market available. Over the past period, the industry regulator IRA has tried to impose legal requirements to force the companies to merge with little success. This means competition in the industry remains stiff as insurance companies fight to acquire new customers and retain current ones for their business survival. For this reason, insurance companies are spending more time trying to

retain their customers and creating customer loyalty to ensure they maintain their business portfolio.

1.1.4 Madison insurance Company

Madison Insurance Company Kenya Limited (Madison) is a locally owned insurance company in Kenya. It was incorporated under Kenyan Laws in 1988 after a successful merger between Crusader Plc (1974) and Kenya Commercial Insurance Corporation. It is one of the leading names in the insurance industry offering both Life and General Insurance products. Madison has its Head-office in Nairobi with twenty one branches in all the principal towns in Kenya. The branches fall under four Regional Offices namely, Nairobi Region, Western Region, Coast Region and Central Region. Despite the severe economic environment and intense competition in the industry over the years, Madison has continued to grow to achieve a combined premium income of over 2 billion by 31st December 2012. The main objectives for Madison Insurance are to provide the best insurance products at the most reasonable prices and to offer unparalleled customer service to their customers. This forms the basis of offering quality services to their customers that are driven towards attracting and retaining its customers in a competitive market environment.

1.2 Research problem

Low insurance penetration is one of the challenges facing the insurance industry development in terms of market share, product diversification among other measures. In Kenya, insurance growth was 2.84% in year 2009 compared to 2.63% in previous year while South Africa whose growth was 12.9% with a population of 44 million (AKI 2009). According to National financial access survey (2009) only 6.8% of Kenya population has purchased insurance cover with an overwhelming 91% never having embraced insurance cover either in life or property. In regard to the above concept insurance firms have to formulate competitive strategies for each to have credible market share.

As noted by Wei and Chiu (2002,) customer retention is a common concern for many industries and a crucial issue for sustainability or bottom-lines in today's compressed market place as it increases sales and a significant saving in market. This is due to the

fact that acquiring a new customer is more costly than retaining an existing one, long-time customers tend to be less price sensitive, permitting higher prices to be charged and loyal customers are more likely to provide free, word of mouth advertising referrals. This way the impact of competition is minimized.

Competition for the market by the many companies has led to price undercutting with some insurers charging unsustainable premiums. This has compromised underwriting qualities as the insurers are not able to fund operations and growth for efficient delivery of services and claims settlement. Attempts by the government to force the players to merge by increasing the minimum capital requirements have had little success. This a pointer Kenyan insurers are comfortable with fighting for the small customer base as investment income consistently mask the losses racked up in the underwriting side of business. The battle for premiums in search for growth in the crowded market is egging some executives to warn of losses given that the bulk of the players are using pricing as the main competitive strategy for growth of market share but it remains to be seen how profitable those growth strategies are at an underwriting or overall level (Mbogo, 2011)

The insurance industry in Kenya being very unique in its own service provision, and coupled with the intensive competition that exists currently, the insurance companies have no choice but to device on many methods they can use to attract and retain their customers. Looking for a new customer is a very difficult task and it is very important that the customer already acquired must be treated with caution to ensure that they don't leave. However, many challenges still stand on the way of the companies in trying to retain their customers. Madison Insurance has been one of the industry leaders in terms of market share in the early years. However, as time goes, the company has found itself losing its share of the market to other industry players. For instance, according to industry statistics, during the period between 2012 and 2013, Madison insurance company lost its market share having dropped from 1.40% in 2012 to 1.27% in 2013(AKI Insurance Industry Report, 2012 and 2013). This is a worrying trend and if not checked, the company may find itself at the bottom of the list of players. Retention of the customers is therefore critical in its initiative to regain its market share.

A review of existing literature reveals that a number of studies have been done focusing on customer retention and related topics in different sectors. Lawrence and Buttle (2004) worked on Customer retention management processes and concluded that first, excellence in customer retention is strongly associated with the presence of a documented complaints-handling process. Second, the standard management practices of planning, budgeting and assigning accountability for customer retention are not associated with excellent customer retention performance. Ranaweera C. and Neely A. (2003) also did a research on service quality and customer retention and found that there is a positive link between service quality and customer retention. However, high quality with high prices was not acceptable among price sensitive customers.

Locally, studies that have been done include: Kiragu (2014) researched on the challenges facing insurance companies in building competitive advantage in Kenya and conclude that government regulation, training and distribution channels were the challenges facing insurance industry in Kenya. Koima (2003) did a study on the challenges in the regulation of the insurance industry in Kenya, Kamanda, (2006) also did another study on Insurance firms with the objective of determining the factors that influence its regional growth strategy, Ouma (2007) did on the relationship between value chain and competitive advantage in the insurance industry in Kenya; Kitua (2009) investigated on the internet as a source of competitive advantage for insurance firms in Kenya;

The reviewed works have concentrated more on other challenges facing the insurance industry. No specific study has been carried out focusing on the challenges of customer retention by the insurance companies in Kenya. This study therefore aims to fill this gap by trying to delve into the challenges faced by Kenyan insurance companies to retain their customers. This study seeks to determine the challenges faced by Madison Insurance Company as representative of the industry. The research therefore seeks to answer the question, what are the challenges faced by Madison Insurance Company in retaining its customers?

1.3 Objective of the study

- i) To determine the challenges faced by Madison insurance company in retaining its customers.

1.4 Value of the study

Customer retention is a worry for any business operating in the competitive environment of today. The Madison insurance company is one of the companies keen on retaining their customers to boost their business performance. This research will therefore be of a great value to the management in implementing some of the recommendations on the challenges of retaining their customers. As a result, Madison as a company may use this work to improve on its performance by devising ways to deal with the challenges, and as a result, adding to their revenue base as more customers are retained.

The research will contribute to the knowledge bank for aspiring managers on the challenges faced by managers to retain the customers in the Kenyan Insurance Industry. As a manager, every customer retained is a success and an indication of a better future. The young aspiring managers will therefore find this research very useful in laying down the measures to deal with customer retention challenges. In the academic field, the research contributes to the body of knowledge from which many more researches will be based. By identifying the gaps left by this work, the foundations for further research will have been laid for the future researchers. This will be important in providing an in depth inquiry into the subject matter.

The government through its regulatory arms plays a very important role in the insurance industry. Some of the customer acquisition and retention practices border on the regulatory concerns and the monitoring of the same by the government is vital for the leveling of the playing ground for the industry players. This research will therefore be of more value to the government in formulating its policies in regulating the conduct of the industry players. Above all, the industry in general will have an undisputed interest in such kind of research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarises the existing literature on customer retention. The chapter begins with analyzing the relevant theoretical models under the topic, the consumer theory and the Game Theory, and then proceeds to discuss the concepts of customer retention and the challenges of customer retention.

2.2 Theoretical foundations

This study was based on two theories, the consumer theory and the game theory.

2.2.1 The Consumer Theory

The Consumer Theory assumes that if consumers are perfectly informed, they maximize their utility as a function of consuming various goods or services, given relative prices, their income and preferences. Changes in prices and income influence how much of different goods or services rational consumers will buy (Begg et al. 2000). Insurance is expected to be a normal good with a positive income elasticity of demand, implying that the poor are less likely to insure. A price increase of insurance is expected to lower the insurance demand, and a decrease in insurance premium will raise the demand for insurance. Insurance companies are faced by the challenge of what level of premium to charge, to balance between retaining customers to avoid losing them to competitors, and matching risks with the cost of taking them in terms of premiums. The client will have to make a choice of insuring or not, and with who. This may mean the customer will evaluate his choices and possibly run away to other competitors.

Researchers on consumer behaviour seem to agree with the consumer theory. For example, some researchers suggest that the relative evaluation of incumbent and alternatives can be influenced by what a customer knows about alternatives. For instance, Bettman 1979; Fishbein and Ajzen, (1975) in their information- processing theories of

choice suggest that a consumer's evaluation of an alternative will depend on the content of the consumer's knowledge (i.e., information pertaining to how the alternative performs on decision-relevant attributes). Given the availability of information in the environment of today, this poses a great challenge to insurers since the consumer is able to evaluate his alternatives among the available insurance service providers available in the industry.

2.2.2 The Game Theory (The Winner's Curse)

Game theory is defined as the study of strategic decision making. More formally, Roger Myerson defined it as "the study of mathematical models of conflict and cooperation between intelligent rational decision-makers. Game theory provides general mathematical techniques for analyzing situations in which two or more individuals make decisions that will influence one another's welfare." (Myerson, 1991). Game theory has been applied to contexts in war, business, and biology. The context of business will include the insurance sector in Kenya, where this theory has been applied widely, to the extent that the competition sometimes becomes wasteful, almost reducing to price war of some sort.

In their research paper, "Game Theory in General Insurance", Warren et al (2012) stated that what is important in game theory is the notion of strategic interdependence. That is, the payoff to a firm of a choice it makes will depend on which choices are open to its competitors and how they will respond. It then becomes impossible to know for sure what is the payoff of any action that is taken, even if the firm has full information about its customers and its costs. Retaining or losing a customer may become apparent depending on the game played and the response of the other players in the same industry.

Rothwell, et al., (2009) applied what was called "the winner's curse" concept of auction theory to setting the price of an insurance policy. This suggests that firms bid to underwrite a customer's risk by quoting a premium. However, the true cost of that policy is unknown as it is not possible to predict precisely what will be the claims cost. In this event, insurers will determine the price they will bid by considering their expectation of what is the cost of claims. The winner's curse theory suggests that an insurer who bids the lowest price and wins the business is likely to have underestimated the cost and

therefore is likely to be cursed by less profit than expected. This therefore brings to fore a double challenge for insurers – underestimated cost of claims to the winner, which drives down profitability and a loss of business to the other players, which then again, reduces their underwritten premiums and by extension, profitability. Auction theory suggests that bidders should “shade” their bids to allow for the impact of winner’s curse.

The winner’s curse model assumes that insurers are identical, independent and compete for the same risks at the same level of profitability. Therefore the consumer has no preference for an insurer and will always pick the organization that provides the cheapest price. The price submitted by the insurer is based on their perception of the risk driven from their own data. This brings in uncertainty in that the premium will be based on certain distributional assumptions. Warren et al (2012).

The immediate application of the Winner’s Curse can be readily seen in the Kenya’s Insurance Industry where the Industry regulator IRA has tried hard to enforce the Motor Rating Guidelines to be used by the industry players but it has proved a challenge when it comes to the application of the same to the industry players. Some companies start undercutting in a bid to woo large numbers of policyholders. While this leads to retention problems for the companies affected, it leads to the application of lower premiums which are not commensurate to the risks taken by the players hence most of the times leading to underwriting losses for the motor section. This has even led to the affected players sometimes going under. The retention challenge in the motor business will therefore continue to be a challenge for most of the companies in the Kenyan Insurance Industry. Warren et al (2012) state in their research that in reality, most insurance companies execute their strategy by deciding what price to set, rather than deciding what quantity to produce, as assumed under Cournot model.

2.3 Customer Retention

Ramakrishnan, (2006) defines customer retention as the marketing goal of preventing customers from going to the competitor. According to Mostert et al, (2009), Customer retention is the way in which organizations focus their efforts on existing customers in an

effort to continue doing business with them. Gets and Thomas, (2001) state that customer retention occurs when a customer purchases a product or services again and again.

Many researchers state that customer retention is very important for the company and they explain that to attract the customer and then retain that customer is important for the company. Reichheld and Sasser (1990) concluded that cutting defections in half could more than double the growth rate of the average company. Tom Moormann (1999) explored how the life insurance industry is addressing the issue of measuring customer satisfaction, as satisfied customers are vitally important to life insurance companies, where retention plays a large role in determining a company's revenue stream, and ultimately its profitability. When a company consistently delivers superior value and wins customer loyalty, market share and revenues go up, and the cost of acquiring and serving customers goes down (Reichheld 1993). This means market share and revenues increase as a result of loyal customers who make repeat purchases and make referrals. The company's costs also decrease because less money is spent trying to lure in new customers.

Nationwide Insurance study found that a 1% increase in customer retention increased annual premiums by \$1 million "(Insurance Technology, 2008). Ernst & Young (2012) conducted research on insurance sector of Japan and the findings showed that cross – selling is the key to boosting profitability of insurance company. According to this survey Trust in the provider is the main factor driving for repeat purchases.

2.4 Challenges of Customer Retention

According to Association of British Insurers, no insurer sets out to build a system with poor customer service, yet at a time when consumer expectations of product delivery and service are undoubtedly increasing and the digital revolution makes the insurer-customer relationship more public when things go wrong, insurers face the challenges of matching other sectors with higher satisfaction ratings and adapting to a new dynamic where customer communication is even more important. (ABI, Identifying the Challenges of a changing world, the trend facing insurers towards 2020)

Ranaweera and Prabhu (2003) as well as Fornell (1992) talks about customer satisfaction as the main challenge for retention. They argue that the more the customer is satisfied, the higher is customer retention and therefore many firms devote lots of efforts on creating and maintaining customer satisfaction. Given that customer satisfaction parameters are varied, the challenge gets tougher to retain the customers.

Claims settlement is fronted as one of the major determinants of customer retention. There is a general agreement even amongst insurance practitioners in Africa, that the insurance industry today does not enjoy a favourable public image unlike in other parts of the world. Insurance men and women are regarded in some areas as mere parasites who exploit society without giving much in return except for the occasional claims which they are compelled to pay either out of fear of being taken to court and discredited or exposed, or out of fear of losing their customers to another company (Irukwu, 1977). To all intents and purposes, the claims department can be seen as the “shop window” of the insurance company. It does not matter how cheap an insurance company’s premiums are, or how efficiently they conduct their underwriting administration. If a claim is not properly and fairly dealt with, this is where an insurer will be judged (Roff, 2004). Insurers need to take their claim handling function more seriously because if a claim is handle well, it results to higher customer retention but if handled poorly, policyholders will lose confidence in the insurer and this may damage its most cherished reputation (Banjo, 1995; Butler and Francis, 2010).

Another challenge is the lack of sufficient switching costs for the consumer with sufficient information. Richards (1996) argues that the more the alternatives attract, the more dissatisfied customers will switch service providers and vice versa. Even satisfied customers may switch if the alternatives attract. Ranaweera and Prabhu (2003) argue that the higher is the level of perceived switching cost, the higher is the probability of the customer to remain loyal. Jones et al. (2000) suggest that when perceived switching costs are lower, unsatisfied customers are less willing to stay than satisfied customers. In the insurance industry especially in Kenya where the switching costs is almost nil, with developments in information media at the customer’s disposal, and agents and competitors out to gain customers with little effort from the customer, retention can prove a challenge.

The poverty literature also describes additional concepts that influence decision-making by the insurance consumer, namely time preferences and poor households' risk aversion against risky investments. The literature suggests that households are expected to become increasingly risk averse as they move closer to poverty, as any further drop in income can push them below the survival point (Wagstaff 2000; World Bank 2000). However, this can only be evident in classes of insurance that are necessities for instance, health insurance. For general insurances, where most policies are not a necessity as food or health may be, as the consumers become poorer, they are likely to give up their insurance coverage in preference to other pressing necessities. Retaining such customers is therefore a challenge to the insurers.

Another aspect of consumer behaviour towards insurance is trust. The potential importance of trust has been discussed by various researchers, (Arrow 1963; Mechanic and Rosenthal 1999; Jowett 2003). Trust has been defined as the expectation that arises among citizens of regular, honest and cooperative behaviour, based on commonly shared ethical norms and values, including reliability, loyalty and solidarity (Fukuyama 1995). Mechanic (1998) describes trust in insurance as trust in insurers, based on the insurer's reputation of improving access to care. He concludes that insurers can build a reputation of trustworthiness by demonstrating expertise, responsiveness to consumers, and by ensuring quality care in contracting health insurance facilities. This can be extended to General and life insurance, where if the trust in the insurance provider is lost, then the customer is unlikely to renew his policy with the provider leading to lower retention. Ranaweera and Prabhu (2003) argue that once trust has been built in a relationship, the probability of each party ending the relationship diminishes and this is in accordance with Sharma and Patterson (1999) as well as with Gounaris (2003) who argue that trust is a vital element and that it increases the chance that the customer will remain in the relationship.

Fluss, (2010) notes that competition also forms one of the worst challenges for insurers in customer retention. He argues that competitors are always on the lookout to steal

customers through better deals. Fluss has observed that annual customer attrition rates range from 7% in industries that have high exit barriers such as banking, to almost 40% in the mobile phone industry. Customer retention has a direct impact on long term customer lifetime value, which is a more profitable avenue for firms that seek to pursue growth and sustainability or those that seek to protect themselves from market shrinkage resulting from a contracting economy (Gee et al., 2008). Supporting this argument, Lombard (2009) notes that today the pressure on companies to retain customers is fuelled by the market where customer acquisition is low.

Schultz pointed out that the availability of information at the click of a button has shifted most of the power from marketers to the consumers (Schultz, 1999). It is now estimated that only one out of ten visitors to information-heavy sites such as Amazon.com and Expedia.com eventually becomes a customer; the rest simply gather information. The power of the consumer, while on one hand being an opportunity for companies to sell their products online, also poses challenges to the sellers of insurance services given that the consumer is in a position to evaluate the alternative using the information tools like the internet sites. Convincing consumers to remain with a company remains uncertain as a consumer may decide to leave without according the company a chance to negotiate renewal terms, but simply moves to another company based on the information gathered from the information media.

Previous studies have recognized that “level of knowledge about competitors plays a role in defection. Klemperer’s (1987) and Fornell’s (1992) characterizations of a lack of knowledge about competitors as a switching barrier seem to recognize that level of knowledge about alternatives plays a role in defection. Similarly, Oliver’s (1999) assertion that highly loyal customers become less vulnerable, in part because they “tune out” competitive overtures, also seems consistent with the view that customers who know less about alternatives will be less likely to defect, but those who know more, will probably defect rendering their retention a heavy task.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the research design, data collection instrument used in the study towards accomplishing the research objective and data analysis.

3.2 Research Design

The researcher employed a case study design because this places more emphasis on a full contextual analysis of few elements and conditions and their interrelations which relies on qualitative data (Ngechu, 2004). The case study was chosen for the study because it enabled the researcher to get more detailed information on the customer retention strategies in the chosen case.

This study used Qualitative approach. This is the use of non-quantifiable method to collect, to evaluate and analyse data (Ngechu, 2004). The reason for this approach is to permit the researchers to study selected issues, cases, or events in depth and detail. Also, Data collection cannot be constrained by predetermined categories of analysis, allowing for a level of depth and detail that may not be provided by the quantitative approach (Ngechu, 2004).

3.3 Data Collection Method

The study targeted five senior managers of Madison insurance company which comprised of the CEO, The customer service manager, the General Manager (General business), the underwriting manager and marketing manager. These were the people mostly involved in the implementation of customer retention strategies. The data comprised mostly primary data. Structured interview guide was used in the collection of the primary data with both open and closed ended questions. This was to effectively assist in getting the information within a short time. Personal interviews were used in the collection of the data. The targeted respondents had been in the organisation for a minimum of 4 years. This was necessary to validate the data.

3.4 Data Analysis

Data Analysis is the process of systematically applying statistical and/or logical techniques to describe and illustrate, condense and recap, and evaluate data. It is the process of bringing order, structure and meaning to mass information collected. (Mugenda, 2003). According to McDanile and Gates, (2001), data analysis is about searching for patterns of relationships that exist among groups.

The research being a case study, the content analysis was used to analyse the data collected. According to Holsti (1968), content analysis is any technique for making inferences by systematically and objectively identifying special characteristics of messages. It is a method of analysing written, verbal or visual communication messages (Cole 1988). Content analysis as a research method is a systematic and objective means of describing and quantifying phenomena (Krippendorff 1980, Downe-Wamboldt 1992, Sandelowski 1995). It is also known as a method of analysing documents. This method allowed the researcher to test theoretical issues to enhance understanding of the data.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the data analysis, findings, interpretations and presentation. The objective of the study was to determine the challenges of customer retention by Madison Insurance Company. To this end, five managers were interviewed to find out the challenges faced by the company in their customer retention processes. The findings presented in this chapter is based on the results of the in-depth interviews and some secondary sources of informations like the company reports on the production figures that indicate the position of the company in terms of new business underwritten versus the renewals which represent the level of retention at a particular point.

The research targeted five senior managers of Madison insurance Company who were closer to the management of the customers. These included the Chief Executive, the General Manager(General Business), The underwriting Manager, the Marketing Manager and Customer Service Manager. During the in-depth interviews, the respondents described the history of the company's position in the industry and how the retention problem has led to the recent position. In addition, how measures have been put in place to deal with the problem and various challenges faced in the realization of the customer retention measures.

4.2 Demographic Information

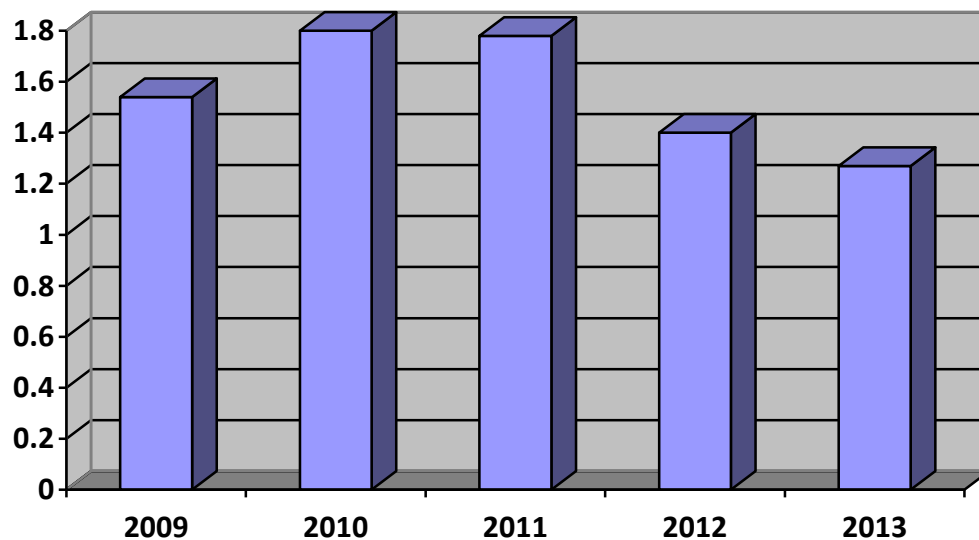
Two of the respondents were female while three were male. Their ages ranged from 30 – 55 years. The average experience of the respondents in the insurance industry was 10 years. Each of them had stayed with the company for at least 5 years. This allowed effective evaluation of the retention efforts by the management in the last few years and the associated challenges that have been faced by the company in an attempt to retain their customers. The policy of the company was to employ at least graduates with full

professional qualifications in the management positions. As a result, with exception of one who had not completed the professional qualifications, all other respondents were at least qualified degree holders with professional qualifications.

4.3 Statistical Information

The company has had a statistical trend in the past few years that shows its position in the industry as one of the leading companies in the past. The following sections show these trends.

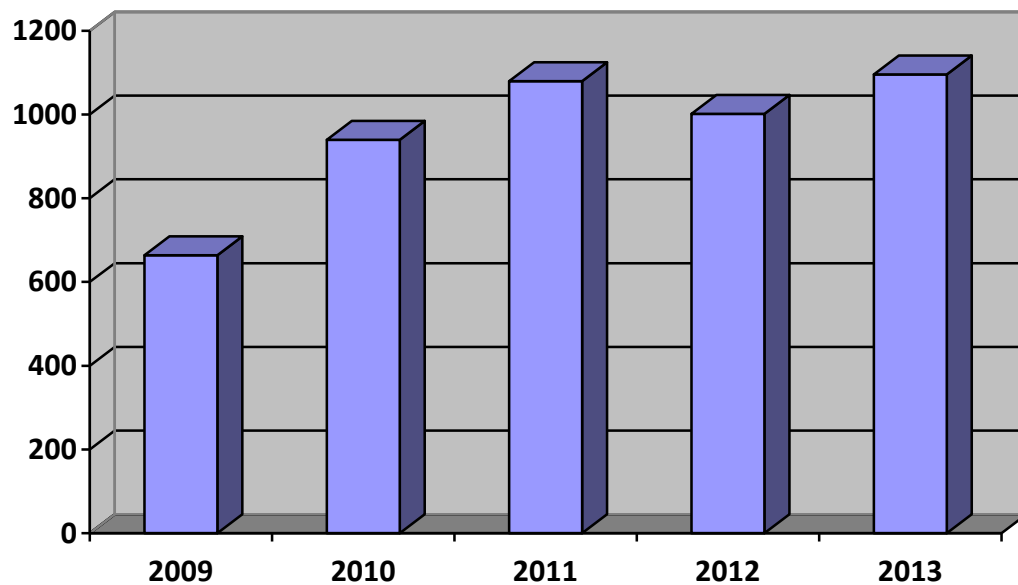
Fig. 4.1: Trend in Market Share (%)



Source: Association of Kenya Insurers, Insurance Industry Reports

The trend in the market share was at its peak in the last few years and has been declining to date. This means the company has been losing customers to its competitors for the previous periods. It is clear from the analysis that retention of the customers has been a challenge for the company.

Figure 4.2: Trend in Revenue (In Millions)



Source: Association of Kenya Insurers, Insurance Industry Reports

The revenue for the company seems to have been on the upward trend since 2009 with exception of 2012 when it dropped. This trend can indicate acquisition of new business while neglecting retention of the current customers thus growing premium revenues from new customers.

4.4 General Findings

The researcher sought to know whether a department dedicated to customer retention was in place in the company. It was established that the company does not have dedicated department dealing with the customer retention initiatives. Rather, the duty is distributed to all the employees in the underwriting and marketing departments to generate the renewal lists and follow up with the clients concerned in terms of dispatching the renewal notices to the clients. The success rates of this method however depended on circumstances. If the contact details of the client are available in the systems, it was dispatched to the relevant clients. If the contacts were not available, the challenge was

complicated as the contacts have to be sought and the likelihood of the notice reaching the client depends on whether the contacts are found.

The methods used by the company in an attempt to retain their customers were varied. Some of them cross into other departments. Among the listed methods used are constant reminders to customers through physical dispatch of renewal notices mainly through intermediaries, regular calls made to the clients, service efficiency through setting up a dedicated customer service department, prompt claims settlements, Price discounts, customer visits among others. Most of these methods have been in place for some time, with improvements being made through constant reviews to ensure the customers are maintained in the company books. The implication of this therefore is that the company has put in place measures to ensure that the customers are retained. This then begs the questions as to why there has been a decline in the level of retention by the company over the last five years as revealed by the steady decline in market share of the company over the same period. If the measures to retain the customers have been put in place and reviewed by the company, and the level of retention seems to have been declining, what then are the challenges in the retention of customers experienced by the company?

4.5 Challenges of Customer Retention

Despite the efforts to improve the customer retention in the company, from the results of the study, it was found that the company still faces challenges in its efforts to retain its customers. The challenges faced by the company consist of a raft of processes which can be grouped as internal and external Challenges. The internal challenges are the challenges that are within the company's control while the external challenges are influenced by the factors outside the control of the company. The challenges are therefore influenced by both the internal and external environments.

First, the claims management was the big chunk of the problem. Most of the respondents have cited that they did not have good reputation as regards the claim settlement in the past few years. However, it was noted that this problem is now solved as they have

worked around the clock to ensure that they streamline their claims department to serve their clients in the best and efficient manner. It is to be noted that clients were also a very unique group to deal with as they do not differentiate between the payable and unpayable claims. Concerned with this therefore is the challenge of educating clients on the policies they take so as to have knowledgeable clients who do not complain once they are informed that their claims will not be paid for reasons that are well stipulated in the insurance policy.

Competition is one challenge that has been cited by all the respondents as being the one major challenge to the retention of customers in the insurance industry. It was noted that the industry has many players against a small market of insurance buyers that makes the whole industry staging cut throat competition against one another to the extent of using unethical methods to snatch policyholders from the company. One major problem concerned with this that was cited was the gross undercutting by the players in the industry that leads to the players charging unsustainable premiums in order to win clients from the other players. This has greatly affected the company's retention ability and by extension, the underwriting results of the company.

Product pricing is a challenge to the company just like it is to the industry. Consumers are rational beings that seem to make most of their choices based on the prices of the products they buy as opposed to the quality of the product. For this reason, it common for the company seeking to renew a policy for a client to find the client basing his renewal on price reduction. Clients will always insist their premiums have to be reduced if they are to renew their policy with the company. Any unsuccessful negotiations on price will simply see the client moving to another company where the same reduction is assured despite the quality of service. Regulations issued by the industry regulator IRA have not done much to streamline the industry in terms of insurance product pricing. The regulator has continued to press on the underwriters to comply with the pricing guidelines but with very little effect. Companies have continued to undercut the prices of insurance products notably the motor business prices whose premiums forms over 50% of the premium

income of the company. This has posed a challenge in retaining some of the company's customers.

Internal processes like notice management has been a challenge some of the clients' data in the company system has since changed leading to the clients not receiving their notices in time or not receiving them at all. Some of the problems associated with this also is the client completely forgetting their renewals leading to high cost of managing the same in terms of resources required to keep the client up to date with his renewal status. Management of large data of clients with limited human resources can sometimes be very difficult and therefore the adequate notice to the client and continuous reminders may not be as quick as required by the clients. This leads to the other competitors often poaching the clients to take them to the other companies.

Managing customer expectations and satisfaction is a challenge that was also emphasized. As noted by one of the respondents, customer expectations are sometimes complex and especially in the insurance industry where the products are unique as opposed to the other sectors where services are provided immediately, the insurance services rely on a promise to deliver at a later date in case a misfortune occurs. It also depends on various conditions being met and exclusions stated in the policies. One will expect the customers to be well versed with the provisions of his policy before he can lay a claim. This is found not to be the case as most do not even read their policies and rely on their expectations in terms of the services to be rendered by the company. For instance, a client gets an accident and finds that the cost of damages sustained is around fifty thousand shillings, then he is told by the company that his excess amount is fifty five thousand and therefore he has to bear the whole cost of repairing his car. The client is not in a position to understand why he has to bear the cost of repairing his car while he had bought insurance to take care of the accidents. Such a client will definitely move to another company even without asking whether the other company will not tell him of the same excess.

Nature of the client is another challenge cited in the company. This was as a result of the fact that some clients cannot just be retained by the mere efforts of the company but depends on the circumstances of the case. Unfortunately these types of clients are sometimes the clients with very high amount of premiums that have a high impact on the company's results. For instance, many governments institutions like parastatals buy insurance services, some of which go through the company. But the nature of the process of purchasing insurance is such that the process has to go through competitive tendering processes. Some of these processes put tough pre-conditions for bidding in such a way that they sometimes knock out the companies that do not meet such preconditions. If these preconditions are reviewed at renewals and tightened, it is very difficult to retain such accounts. Besides, political interference sometimes also takes precedence and it may be a difficult task if one doesn't have the political connections necessary to obtain the business.

Bancassurance has been cited as another milestone in the distribution of insurance services to various clients. This has been to some extent true as the banks which have more trust with the public and a wider distribution networks in the country are able to rely on their goodwill to capture clients which were not previously insured in the insurance market, while also giving alternative channels to the existing clients for easier access to insurance products. However, this has also been noted as one of the challenges in the company in the retention of its clients. Most of the banks are said to be affiliated to some specific insurance company either as one of the shareholders or having some form of common ownership. For this reason, most of the businesses from these specific banks go to these sister-insurance companies. Madison at the time is not associated with the big banks and hence, some of the clients going through such banks are lost to the affiliated insurance companies.

In the life section and to some extent, general, securing a sense of mutual trust between the customers and the insurance company has at times been a challenge. Distrust affects both the consumer and the company, as both may feel uncertain about the underlying intentions of the other party. For example, as noted by one of the respondents, a recent consumer survey shows that one in every four consumers will not hesitate to cheat their insurance company, if they have a

chance to do so. These consumers may, for example, choose to misinform their insurance company about their individual risk characteristics when signing up for an insurance policy, misrepresent the sequence of events that lead them to file a claim, or even neglect to disclose relevant information that may invalidate the insurance policy.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study sought to identify the challenges of customer retention in Madison Insurance Company. An interview was carried out with the relevant personalities handling clients and formulating retentions strategies in the company. The interviews were conducted with the Chief Executive of the company, the General Manager of General Business, the Underwriting Manager, The Marketing Manager and The customer service Manager. Out of these, two were female and three of them were male. Guided by the objective of the research, these were seen as the relevant people to address issues concerning the clients in a more concrete way and hence provide the relevant information to accomplish the research objective.

From the results of the study, the managers were fairly young being aged between 30 -35 years and with an average of ten years of experience in the industry. They had also worked for the company for a minimum of 5 years. All of them were at least graduates with most of them having full professional qualifications.

It was found that the company was one of the big companies with good market share in the past. However, the market share and the revenue of the company have been declining since 2009. This was attributed to the stiff competition that posed by the other players in the market that were stamping their presence in the market. There was an improvement in 2013 with the reorganization of the company.

It is also established that the company has a dedicated customer service department, however, it does not have a department dealing with the retention of the customers, which can be established as a renewals section. The duty is distributed among the employees who deal with other tasks of the company hence not making it effective for them to follow up on the clients in order to retain them.

The methods by the company in the retention of its customers were found to be varied. Notable among these were using renewal notices and reminders, calls, efficient service through a dedicated customer service department, improvements in claims management among others.

The respondents noted that the challenges of customer retention in the company can be grouped as internal and external challenges. Internal challenges included claims processes, calls and renewal notices management among others. The external factors included competition, pricing wars, customer expectations, nature of customers, trust and bancassurance challenges among others. Majority of the respondents seem to agree that the main challenge of customer retention in the company is the stiff competition in the insurance industry with the majority of the insurance industry players are involved in price undercutting leading to predatory pricing of insurance products in order to win clients from the competitors. This has posed a greater challenge to the company which has to balance the price of the products with the risks taken.

5.2 Conclusion

With so much at stake, retention program effectiveness is essential. While customer loyalty and retention are not new, there is certainly an increased focus on driving effective strategy around them. Traditional means of creating loyalty and keeping customers are earning diminishing returns. Customers are becoming desensitized to loyalty programs and are more willing to switch for savings. Insurance companies must be innovative in delivering unique value to their current customers to protect their brand loyalty and grow their revenue stream. The concept of customers as brand evangelists is more important than ever. This paper shows that unless serious attention is paid to customer retention, simply looking for more customers by concentrating on acquiring new accounts will fail to effectively achieve the main objective of sustained profitability by the insurance companies.

5.3 Recommendations

The duty of being closer to the customer is paramount if the customer loyalty is to be maintained in order to achieve retention.

As the competition continues to mount in the insurance market, fighting competition is not going to succeed. Companies must either compete or they die. As a result of this the researcher recommends that the market should be expanded by bringing the uninsured population into focus. There is a huge potential and fighting to pouch clients from one another may not be the best option.

The few employees in the company may not be in a position to concentrate on all the tasks of the day to day operations of the company which includes customer retention management. With the retention being one of the cheapest ways to maintain the production of a company, the researcher recommends that a department or section of either underwriting or marketing be formed to deal with the expiring policies to make sure they are renewed to maintain and improve the production of the company. This can then be part of customer service department which is already in place. A company that struggle to look for more clients and forgets its existing clients will at a point find that its production is declining as the migrating clients come back to poison the minds of the remaining and the new clients being recruited.

As constant reminders may sometimes be forgotten, a company must embrace the use of modern ICT methods in managing its renewal processes and reminders to make sure that clients are reminded in time and regularly about their expiring policies. To this end, modern computer and mobile integration can be installed to send automatic messages to clients about their expiring policies so as to make sure no clients is not informed of not only renewal, but also the existing offers on discounts or covers that the company may need to cross sell.

Concerning claims management, the researcher opines that a service charter be put in place that defines the level of service expected from not only the claims department but also the underwriting, marketing and customer service departments to ensure

improvements in the service of the clients of the company as expected by the clients themselves.

Concerning pricing, very little has been felt in this as the regulator seems to be unable to address the price undercutting challenge for the insurance industry and members continue to compete based on predatory pricing. As a company, lobby should be done to the regulator to find better ways of dealing with the problems in order to bring sanity in the insurance industry.

Earning trust is a marketing tool for every business enterprise in any field. To gain publicity and trust in the face of clients, media campaign should be held both by the company individually and the umbrella bodies like AKI and IRA in order to improve the trust between clients and the insurance companies. Various appeal mechanisms should be in place to allow clients who are aggrieved to seek assistance from the umbrella bodies to get their problems addressed. If such initiatives are publicized, they can assist build trust in the minds of insurance clients and help improve retention.

The researcher also recommends strategic alliances between the company and some of the independent banks in order to improve its retention of clients that are coming to the company through the banks. It is known that banks impose conditions on clients that in the case they get loan facilities from them, they must get insurance for the property through them. Since the banks will normally take their businesses to companies they are in partnership with, it is important to seek strategic alliances with some banks in order to improve not only retention, but also new business acquisition which will improve their accounts.

The researcher also recommends that the government should think of ways of making insurance uptake compulsory to the population for some selected policies. This will expand the market to reduce the fierce competition that is witnessed currently. Besides, it will assist in informing the public on the importance of insurance to the citizens. It will also create more employment to the population hence contributing to the expansion of the economy.

5.4 Limitations of the Study

One of the limitations of this study was the availability of some of the statistical data required for this study. Some of this data was confidential and could not be allowed for publication by research such as this. For this reason, some of the intentions of this research could not be completed.

This study concentrated on one firm whose data may not be representative to the industry as may be expected. One challenge faced by the company may not be the same challenge facing other companies in the same industry. The extent of being representative of the industry will depend on each case.

5.5 Suggestions for further Research

It is noted that the price undercutting by the insurance industry is unsustainable. However, the efforts that have been put forward by the regulator has done little to solve this. There is need for further research on how to deal with the challenge of price undercutting by the industry. Banks in Kenya can provide a starting point since they are successful in their pricing without cut throat undercutting.

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APPENDICES

Appendix I: Letter of Introduction



UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE 22/09/14

TO WHOM IT MAY CONCERN


The bearer of this letter Samson Oketch
Registration No. D61/69946/2011

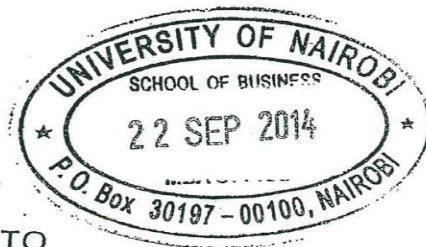
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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

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

Thank you.


PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS



Appendix II: List of Insurance Companies

1. AAR Insurance Kenya Limited
2. Africa Merchant Assurance Company Limited
3. AIG Kenya Insurance Company Limited
4. APA Insurance Limited
5. APA Life Assurance Limited
6. British American Insurance Company
7. Cannon Assurance Company Limited
8. Carpex Life Assurance Company
9. CFC Life Assurance Limited
10. CIC General Insurance Limited
11. CIC Life Assurance Limited
12. Corporate Insurance Company
13. Directline Assurance Company Limited
14. Fidelity Shield Insurance Company Limited
15. First Assurance Company
16. GA Life Assurance Limited
17. GA Insurance Limited
18. Gateway Insurance Company Limited
19. Geminia Insurance Company

20. ICEA LION General Insurance Company
21. ICEA LION Life Assurance Company
22. Invesco Assurance Company Limited
23. Intra Africa Insurance Company Limited
24. Kenindia Assurance Company Limited
25. Kenya Orient Insurance Limited
26. Madison Insurance Company Limited
27. Mayfair Insurance Company Limited
28. Mercantile Insurance Company Limited
29. Metropolitan Life Insurance Company
30. Occidental Insurance Company Limited
31. Old Mutual Life Assurance Company Limited
32. Pacis Insurance Company Limited
33. Pioneer Assurance Company Limited
34. Phoenix of East Africa Insurance Company Limited
35. Pan Africa Life Assurance Limited
36. Real Insurance Company Limited
37. Resolution Insurance Company Limited
38. Takaful Insurance of Africa Limited
39. Tausi Insurance Company

40. The Heritage Insurance Company Limited
41. The Jubilee Insurance Company Limited
42. The Kenyan Alliance Insurance Company Limited
43. The Monarch Insurance Company Limited
44. Trident Insurance Company Limited
45. UAP Insurance Company
46. UAP Life Assurance Limited
47. Xplico Insurance Company

Source: Insurance Regulatory Authority (IRA)

Appendix III: Interview Guide

PART A: RESPONDENT

1. How old are you?
2. What is your level of education?
3. How long have you been in the industry?
4. How long have you worked for the company?

PART B: STATISTICAL INFORMATION

5. What is the trend in the market share of the company for the last 5 years?
6. What is the revenue of the company in the last 5 years?
7. What is the retention ratio of the company in the last 5 years?

PART C: RETENTION

8. What do you understand by the word Customer retention?
9. Does the company have a retention department?
10. If yes, what methods does the department use to retain customers?
11. How long have they been in place?
12. Are they reviewed? How frequent?
13. Has there been an improvement in retention of the customers?
14. Have you faced any challenges in retaining your customers?
15. If yes, what are the main challenges encountered in the retention of the customers?

Thank you for your response.