STRATEGIES ADOPTED BY THE INSURANCE REGULATORY AUTHORITY IN ENHANCING COMPLIANCE IN THE INSURANCE INDUSTRY IN KENYA.

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DECLARATION

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

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This research project has been submitted for examination with my approval as the candidate’s University Supervisor.

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I wish to thank Almighty God for his favour, mercy, provision and protection throughout this journey. Indeed, you appoint time for each and every success. It may have taken long but I believe this was your appointed time. Thank you for seeing me through.

To my supervisor Caren Angima, thank you for guiding me through and for your patience with me when I felt like giving up. Thank you the staff of School of Business, University of Nairobi especially Ambank Office for your support.
DEDICATION

I dedicate this research work to my lovely nephews Clinton Kihara and Anthony Kihara Jr. you always put a smile on my face. To my lovely nieces Esther and Wandia, may all of you grow to be God fearing angels. To my parents, my brothers and sister for your encouragement and support.
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ABBREVIATIONS/ACRONYMS

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AIO</td>
<td>African Insurance Organization</td>
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<td>AKI</td>
<td>Association of Kenya Insurers</td>
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<td>BPR</td>
<td>Business Process Reengineering</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CID</td>
<td>Criminal Investigation Unit</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
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<td>ICT</td>
<td>Information Communication Technology</td>
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<td>IRA</td>
<td>Insurance Regulatory Authority</td>
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<td>NDIC</td>
<td>Nigeria Deposit Insurance Corporation</td>
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<tr>
<td>PSV</td>
<td>Public Service Vehicle</td>
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<tr>
<td>QMS</td>
<td>Quality Management System</td>
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<td>RBS</td>
<td>Risk Based Supervision</td>
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<td>TQM</td>
<td>Total Quality Management</td>
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<td>SASRA</td>
<td>Sacco Societies Regulatory Authority</td>
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ABSTRACT

There is need to regulate and supervise any industry for it to achieve competitive edge. However there may be challenges that may come with new regulations leading to lack of compliance. Regulators therefore must adopt strategies that respond to compliance or non-compliance. This study sought to investigate the strategic responses adopted by IRA in enhancing compliance as well as determine the challenges that the regulator encountered in adopting these strategies. A case study research design was adopted as it sought to gain an indepth understanding of the challenges of implementing regulation and compliance. A total of 5 respondents were interviewed using an interview guide. Both primary and secondary sources of data were used. The research findings indicated that IRA had introduced regulations such as minimum capital requirements, policy holder compensation fund, new guideline on registration and renewal of licenses, guidelines on insolvency of insurance companies and bancassurance so as to protect the consumer of insurance. To enhance compliance, IRA adopted strategies like ICT, infrastructure, research and development, administrative sanctions, consumer protection and education as well as risk-based capital. The research also found out that there were challenges of adopting these strategies which included low utilization of ICT in the industry, new and emerging issues in the industry, poor corporate governance, insurance fraud and overlap of supervision. The recommendations included investing in consumer education and training; enhanced corporate governance, research and development in order to come up with innovative products. In conclusion, the insurance industry in Kenya is still promising and with proper legislation and regulation and compliance it can grow to increase the GDP of the country.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Regulation refers to the diverse set of instruments by which Governments establish requirements for enterprises and citizens. (OECD, 2000). Regulations include laws, formal and informal orders, subordinate rules issued by all levels of Government and rules issued by Non-Governmental or Self- Regulatory bodies to whom Governments have delegated regulatory powers. Economic regulations intervene directly in market decisions such as pricing, competition, market entry and exit and it aims to increase economic efficiency by reducing barriers to competition and innovation. Social regulations protect public interests such as health, safety, the environment, and social cohesion. Administrative regulations are paper work and administrative formalities through which governments collect information and intervene in individual economic decisions. Regulation is not achieved simply by passing a law but requires detailed knowledge and intimate involvement with regulated activity.

Policy maker and regulators must develop a sophisticated view of the population of individuals and organisations targeted for the regulation. They should also consider such factors as the characteristics of the market, structure of individual organisations, incentives likely to motivate both the affected individuals and organisations to comply with the regulation as well as the obstacles to compliance. Systematic failures of compliance are failures of public governance that devolve regulatory instruments and ultimately break down the credibility of government and governance under the rule of law. Regulation that fails to elicit an adequate level of compliance creates unnecessary cost through fruitless administration and implementation, postpones the achievement of the policy objective, erodes general confidence in the use of regulation, the rule of law and government in general and it also cumulatively leads to the undermining of other regulations and regulation itself which can lead to a vicious cycle in which more and more rules are promulgated while public confidence in government regulation lessens and compliance outcomes become worse.
Pearce & Robinson, (2008), in their book, describe Michael Poter’s five forces that shape strategy in an environment. They include: threat of entry of new competitors, threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the degree of rivalry between existing competitors. He also mentioned the importance of government and regulation on industries as a possible sixth force to be considered with this in mind, the insurance industry needs to be regulated in order to remain competitive. The government having come in through the Insurance Regulatory Authority, must therefore understand the individual organisations structure while designing the regulatory framework so as to ensure compliance.

1.1.1 Regulation and Compliance
Compliance means incorporating standards that conform to specific requirements. Regulatory compliance is the regulations a company must follow to meet specific requirements. (Mintzer. R, 2003). Firms in the financial services industry are known for being subject to a growing number of regulations. Some Compliance Services of executives in financial services indicates that most companies are not necessarily giving compliance the sort of attention it deserves.

The main purpose of regulation in financial services is to ensure open, competitive and stable financial and insurance markets. This is done by protecting investors and policyholders and entrenching financial stability on one hand and encouraging innovation, foreign investment and market efficiency. There is therefore need to protect the public as insurance consumers and policyholders by creating laws that govern the insurance industry in matters of licensing, monitoring and preserving the financial solvency of insurance companies, regulating and standardizing insurance policies and products as well as controlling market conduct and preventing unfair trade practices.

1.1.2 Strategic responses
Strategic responses are a set of decisions and actions that result in the formulating and implementation of plans designed to achieve a firm’s objectives (Pearce & Robinson, 2002). Financial sector supervision requires a more rigorous and intensive than is the case with other sector. As agents, providers and consumers begin to compete more of their
insurance-related transactions online, new regulatory issues have to be resolved. Insurers are collecting more information on consumers and hence privacy is of greater concern especially transfer of medical information. Globalization of the insurance business and the change in the way that insurance products are delivered will affect the regulatory framework and compliance. Insurance are routinely subject to market and financial examinations which are thorough, require companies to dedicate staff and interrupt their business operations and can be costly for companies that have multiple domestic regulations.

(Malloy T. 2003), A firm may obey the law when it is in the firm’s best economic interest to do so. Thus violations occur when the perceived benefits of non-compliance exceed the anticipated cost of sanctions. This leads to use of traditional enforcement techniques like extensive government monitoring and inspections coupled with penalties for observed violations. A firm may be a law abiding actor, struggling in good faith to comply with increasingly complicated and contradictory laws and regulations. The act of compliance is not driven by the threat of legal sanctions; instead compliance flows from the firm’s drive to obey the law. There is a gap between the stated importance of a solid compliance program and the actual human and financial resources devoted to compliance. Companies therefore must make compliance part of their business plans as well as devote a group of individuals to oversight through forming compliance committees that can meet infrequently to go over the state of regulatory compliance of the company and address any concerns.

Organizations need to create and implement an effective strategy in order to execute in today’s market place, Kepner, (1999). According to him, strategic intelligence gathering and analysis is important and it ensures that the depth and breadth of information on which strategic decisions are based is up to date, accurate and relevant. The quality of strategic decisions will depend very largely on this. The intelligence gathered includes; competition, technology, markets, macro-economic, political and social trends and regulation. This helps the organizations determine the implications of this intelligence during its strategic time frame. A strategic master plan is created to help guide the organization in how or objects should be prioritized, defined in detail, sequenced,
scheduled, researched, executed and monitored. This plan may cover activities like; new product and market launches, filling capability gaps, aligning organization structure with strategy, complexity reduction, synchronizing planning and budgeting with the strategy process, functional strategy development as well as merger and acquisition and disposal activities. The insurance environment has therefore taken some of the above measures in order to survive and hence, the Insurance Regulatory Authority has been forced to respond to this changing environment in its strategy.

1.1.3 Challenges in Strategy Implementation

Strategy implementation manifests the strategic intent of a company through various tactical and competitive actions to achieve the desired results which otherwise may remain as distant dreams. Implementing strategy is always a challenge for organizations across the industry. Ability to implement strategy is the deciding factor between success and failure of a company’s strategy, Mutwiri (2012).

Not all organizations face similar environments, Johnson, et-al (2008), organizations differ in their form and complexity hence different ways of thinking about strategy may make sense in different circumstances. Environment could be; simple, dynamic or complex and this may require different processes to manage the strategy which could be a multiple of processes. Due to changes in the external environment, organizations with intended strategy through a strategic plan process may be forced to follow a different strategy in reality. Companies need to incorporate strategy implementation in the planning phase itself and this can be done by involving persons key to execution during planning phase so that it helps in gaining insights into practical aspects or strategy at an early implementation. Challenges like organization politics, culture and sometimes, managing change may hamper proper allotment of resources which will adversely impact strategy deployment. Also when the strategy is not understood by the people, response for acting on it may result in having priorities wrong and the projected levels of returns will never be a reality. Strategy implementation is a long drawn out process, and so in order to sustain the interest and enthusiasm managers and leaders alike, it is absolutely essential that strategic plans have short term wins built in them which not only specify standards as performance but help in keeping managers focuses on the results.
Organization culture which includes information sharing, amenable to change and ownership also determines how quickly or how readily the people can adapt to the new demands that deployment of strategy may make on them. Commitment of the people can be ensured through clear communication of strategy and individual role in fulfilment of the same. This gap is filled by strategy maps which involve aligning individual aspiration with the strategic goals of the company through judiciously designed reward schemes, monitory incentives, well thought out support to individual to plan their career and stimulating their intellectual facilities with challenging responsibilities to ensure high levels of commitment from the people who make the strategy work.

Leading measures in strategy implementation are never agreed upon in advance and hence what gets measured and reviewed is lagging indicators which hamper the ability of the firm to effectively monitor the execution of the strategy for corrective actions to be taken proactively, however, communication along with rigorous view is the key to efficient execution of strategy to effective implementation of strategies. The insurance industry in Kenya has not escaped these dynamisms and therefore the regulator must align their strategic responses to all these changes.

1.1.4 The Insurance Industry in Kenya

Insurance in Kenya is known to have been in existence for over sixty years now with the first insurance companies believed to have been owned by British insurers during the colonial time, Njihia (2013). Kenya’s insurance industry is described as resilient in that despite environmental changes, the industry has shown it can survive and thrive (AKI, 2012). The insurance companies operate under an umbrella body the Association of Kenya Insurers (AKI) which was established in 1987 whose main objective is to promote prudent business practices, create awareness among the pubic and accelerate the growth of insurance business in Kenya.

According to (AKI) report (2012), there were 46 operating insurance companies as at end of 2012, 23 of these were non-life insurance, 11 were life insurance, and 12 were composite (both life and non-life). There were 170 insurance brokers, 24 medical insurance providers and 4862 insurance agents. Other licensed plays included, 140
investigators, 92 motor assessors, 21 loss adjusters, 3 claims setting agents, 10 risk managers and 27 insurance surveyors. Insurance Regulatory Authority (IRA) oversees all these institutions. The penetration of insurance in Kenya is estimated at 3.16% which has been enhanced by improved regulators framework, innovative products, and adoption of alternative distribution channels, enhanced public education and use of technology.

According to IRA report on insurance (2012), there is a general confidence within the insurance industry of continued stability spurring industry growth with moderate risk exposure that may not have any major destabilizing impact on industry performance. The main achievement reported in the recent years include: business growth, product development, claims management. The key drives of the industry include: marketing, staffing, good management, product development, customer service, claims management and automation through ICT software system installation and usage.

Some of the challenges experienced in the industry however include: pricing undercutting, claims settlement, premium collection, staffing, fraud and inadequate intermediary services. Low purchasing power, politics, licensing, compliance and cost of business are also other challenges experienced in lesser frequency in the industry. The major environmental challenges facing the industry include; customer demand, political uncertainty, insecurity and money laundering and terrorism and insurance perception. Others include industry competition and consumer awareness, cost of compliance, ICT skills and competencies and cultural barriers.

1.1.4.1 Insurance Regulatory Authority (IRA)

The Insurance Regulatory Authority is a statutory government agency established under the insurance act (amendment) 2006, CAP 487 of the laws of Kenya to regulate, supervise and develop the insurance industry. It is governed by a Board of Directors which is vested with the responsibility of overseeing operations of the authority and ensuring that they are consistent with the provisions of the insurance Act. Previously then, this role fell under the office of the commissioner of insurance under the Ministry of Finance Department. The major role of the authority include; licensing and registration, regulatory framework, consumer protection and consumer education. Insurance
Regulatory Authority also collaborates with international, regional and local bodies, associations and journals like Central Bank of Kenya (CBK), Sacco Societies Regulatory Authority (SASRA), International Association of Insurance Supervisors (IAIS) as well as African Insurance Organization (AIO) for purposes of sharing information and learning from best practices and cutting edge developments in the insurance industry.

The Authority however also faces challenges in the industry which include low uptake of insurance due to poor saving culture, low disposable incomes, limited understanding of insurance and poor perception. Other challenges are insurance fraud cases which has directly or indirectly cost insurance consumers and the business community in Kenya millions of shillings, capitalisation, skills shortage, limited investment in recruitment, training and career development, high number of insurance companies in relation to Gross Domestic Product levels (GDP) leading to overcapacity and price wars. Through its 2008-2012 strategic plan, IRA faced challenges of implementation such as low utilisation of Information Communication and Technology (ICT) in the industry and inadequate legal and institutional framework to handle emerging issues such as new distribution channels like bancassurance, brand assurance and travel agents as well as issues like micro insurance, Takaful and Public Service Vehicle (PSV) underwriting.

The authority has made changes in the industry in the recent years that include: minimum capital requirements for both insurance and reinsurance companies, reporting on classes of insurance like micro insurance, maximum permitted expenditure and commission and also harmonization of regulations. The Authority has gained achievements in the recent past which include protecting and educating policy holders and the general public through awareness drives across the country, has also ensured competitive and stable insurance industry and strengthening institutional capacity by embracing modern technology for effective service delivery, implementation of a quality management system (QMS), promotion of a positive and productive work environment, transforming institutional corporate culture and institutionalising enterprise risk management framework. In partnership with the Kenya Police, the Fraud Investigation Unit was launched to deal with insurance fraud and other industry malpractices. The unit is manned by 9 police officers deployed from the Criminal Investigation Department (CID)
and so far four cases are currently in various Courts in the country. This will help improve the image and perception of the industry by the public.

1.2 Research Problem

The changes in the overall business environment will affect all the players in any industry but will often tend to benefit some players more than others (Macmillan and Tampoe, 2000). There is therefore need for regulation in order to offer level playing ground for all the players. The Kenya insurance sector has experienced tremendous changes due to the changes in the environment thereby pushing the players to change the way they have been doing business. These changes have led to increased competition among the players and most often have led to price wars through undercutting and this has also increased loss ratios due to poor underwriting. Other changes include issues of fraud and malpractices in the industry which affects policy holders, insurance beneficiaries and the general public and costing insurance consumers and the business community in Kenya millions of shillings every year. Use of Information Communication Technology (ICT) where IRA requires all players to register or renew their licenses online and also submit their returns online. IRA reintroducing of the No Claim Discount (NCD) formula in the motor insurance which most insurance companies do not comply with as well as supervision based on risk management for insurance companies.

As an Authority, IRA recognizes that regulation as a means to an important end is essential for the proper functioning of the Insurance Industry. Some of the regulatory measures are in areas of Board members appointment, minimum capital requirements were increased to Ksh300Million for General Insurance companies, Ksh150Million for Life Insurance Companies and Ksh450Million for Composite Insurance Companies. They also introduced Policy Holder Compensation Fund, registration fees for all players, mandatory reinsurance and restriction of commission. With these regulatory and supervisory issues recently introduced, the regulator must come up with strategic responses to deal with compliance of the players.

Several studies have been undertaken on the response of organizations to regulation and compliance and the challenges of regulation and compliance. A study by Thirima, (2010)
on strategic responses to challenges of insurance regulatory in Kenya by the Insurance Regulatory Authority revealed some of the strategic responses to regulation as benchmarking, total quality management, risk based supervision and leadership and culture. Kerubo (2011), did a study on competition aspects in regulation of the insurance industry in Kenya and found that competition among insurance companies in Kenya affect regulation of the Industry. At the global level, the insurance industry has continued to operate under a challenging economic environment which presents opportunities and incentives for innovations. Most researches have dealt on global standards, principles and guidelines on a wide range of regulatory issues. (IAIS, 1994). None of these studies has specifically dealt with strategies adopted by the Insurance Regulatory Authority in enhancing compliance in the insurance industry in Kenya. This study therefore sought to fill this gap by answering the research question, how has IRA dealt with regulation and compliance and what strategies have they adopted in order to enhance compliance of these regulations?

1.3 Research Objectives

The objectives of this study were to:

i. Determine the strategic responses adopted by IRA in enhancing compliance in the Insurance Industry.

ii. Determine the challenges encountered in adopting of these strategies.

1.4 Value of the study

This research will be of great value to the insurance industry players like the insurance companies, brokers, agents, motor assessors, insurance buyers, so that they can learn on regulation and compliance as well as strategic measures to take to be compliant. It will also form a basis on the regulations that are required by IRA and the consequences on non-compliance.

The research will also be of help to the government and the Insurance Regulatory Authority by identifying the challenges of regulation and compliance in the insurance Industry; they will be able to formulate necessary regulatory measures and legislations so
that the industry can remain competitive. The Government can also encourage more uptake of insurance by offering incentives like tax rebate as well as funding research in insurance innovation and technology.

The research will also be of value to researchers and scholars in the field of strategic management and also in insurance as it will form basis for further investigation and studies. This research will therefore contribute to the existing body of knowledge in strategic management. Researchers will borrow from the knowledge described and extend research for more expansion of knowledge.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter explores and reviews the existing literature that is relevant to this study. It reviews the theoretical foundation of the strategic responses towards the regulation and compliance. It reviews the literature on regulation and compliance, strategic response and challenges of strategy implementation.

2.2 Theoretical foundation
This study will be based on three theories Michael E. Porter Five forces of competitive strategy theory (1980), Agency theory and Resource based theory. Porter’s five forces framework was originally developed as away of assessing the attractiveness of different industries and constitutes an industry’s structure. Industry structure analysis with the five forces framework is of value to most organizations and can provide a useful starting point for strategic analysis as well as help set an agenda for action on the various “pinch-points” that they identify. The five forces include; threat of entry into an industry, the threat of substitutes to the industry’s products or services; the power of buyers of the industry products or services; the power of suppliers into the industry and the extent of rivalry between competitors in the industry. Where these Five forces are high, then the industries are not attractive to compete in.

The implication of the Five Forces is an assessment of the attractiveness of an industry, which happens when the five forces are weak. Industry structures are not necessary fixed but can be influenced by deliberate managerial strategies like organizations building barriers to entry increasing advertising to improve customer loyalty, buy up competitors to reduce rivalry and increase power over suppliers or buyers. However not all competitors will be affected equally to changes in industry structure, deliberate or spontaneous. If barriers are rising because of increased research and development or advertising spending, smaller players in the industry may not be able to keep up with the larger players and may be squeezed out. Similarly growing buyer power is likely to hurt small competitors most. The Insurance Industry players like any other Industry must
therefore analyse the forces that affect the industry so that they are able to define competitive strategies to match competition to enable sustainable growth.

Agency Theory is a set of ideas an organizational control based on the separation of the ownership from management creates the potential for the wishes of owners to be ignored. (Pearce & Robinson, 2010). Whenever owners (or managers) delegate decision making authority to others, an agency relationship exists between the two parties. Agency relationships can be effective but when the interests of managers diverge from those of owners’, the managers act in ways that increase their own welfare at the expense of the gain of corporate stockholders then the owners who delegate decision making authority to their agents will incur both the loss of potential gain that would have resulted from owners-optimal strategies and/or the costs of monitoring and control systems that are designed to minimize the consequences of such self-centred management decisions. If the firm may suffer from the acts of its agents, that firm has an incentive to detect and prevent those acts. From the prospective of the regulator, the firm provides additional mechanism to control the behaviour of the individual actors. The Regulator can induce the firm to monitor and control employees by imposing sanctions against the firms itself rather than, or in addition to the penalties directed at the individual. (Malloy T, 2003).

Resource based theory is a method of analyzing and identifying a firm’s strategic advantages based on examining its distinct combination of assets, skills, capabilities and intangibles in an organization, (Pearce & Robinson, 2010). Firms differ in fundamental ways because each possesses a unique combination of resources that include tangible and intangible assets as well as organizational capabilities to make use of those assets. Firms therefore build on the unique resources, skills, and capabilities they control or develop which can become the basis of unique, sustainable competitive advantages that allow them to craft successful competitive strategies. Thus resources of each firm may determine its capability in dealing with compliance with its Regulator.

2.3 Concept of Strategy
Strategy is large scale, future oriented plans for interacting with the competitive environment to achieve company objectives, (Pearce & Robinson, 2008). It is a
company’s game plan that provides a framework for managerial decisions reflecting a company’s awareness of how, when and where it should compete, against whom and for what purpose it should compete. Strategy therefore is the result of a rational planning process orchestrated if not dominated by the top management of the organization, (Hill & Jones, 2001). A strategy is the pattern or plan that integrates an organisation’s major goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to marshal and allocate an organisation’s resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and contingent moves by intelligent opponents. (Mintzberg, Quinn & Ghoshan, 2003).

The decision making hierarchy of a firm typically contains three levels of strategy, (Pearce & Robinson, 2008). Corporate level strategy at the top comprises of Board of Directors and the Chief Executive and administrative officers who basically determine the business in which the firm should be involved in. In the middle is the business strategy which encompasses the overall competitive theme that a company chooses to stress, the way it positions itself in the market place to gain a competitive advantage and the different positioning strategies that can be used in different industry settings. At the bottom of the hierarchy is functional strategy which comprises the managers of production, geographic and functional areas. They develop annual objectives and short term strategies such as operations, research and development, finance and accounting, marketing and human relations.

The strategic planning process involves Five steps, (Hill & Gareth, 2003). They include; selection of the corporate mission and major corporate goals; analysing the organisation’s external competitive environment to identify opportunities and threats; analysis of the organisation’s internal environment to identify the organisation’s strengths and weaknesses ; selection of strategies that build on the organisation’s strengths and correct its weaknesses in order to take advantage of external opportunities and counter external threats and finally strategy implementation which typically involves designing appropriate organizational structures and control systems to put organization’s chosen
strategy into action. Strategic planning therefore shapes resource allocation within the organization.

### 2.4 Regulation and Compliance

This part will describe and discuss the need for regulation and types of regulation.

#### 2.4.1 Need for Regulation

At Local, national and increasingly global levels, governments and civil society seek to use regulation to promote social and economic goals. (Parker, & Nielson). Social regulation is expected to help avert environmental catastrophe, prevent accidents and ill health in mines, factories, transport and food production systems, secure the delivery of a range of essential services in an equitable way, achieve justice and social inclusion for the disadvantaged and keep people’s assets and livelihoods safe from financial crisis. Economic regulation is used extensively to curb monopoly, promote competition and to set standards for prices and quality in industries where competition is thought to have failed. The rationale behind insurance regulation is to promote beneficial competition and prevent destructive or harmful competition in various areas. There is need for regulation to maintain insurer solvency, protect consumers, make insurance available to people as well as regulate premium rates.

#### 2.4.2 Types of Regulation

The first type of regulation is Insolvency. Insolvency prevents competition that routinely causes insurers to go out of business, leaving consumers unable to collect on claims. Insolvency regulation has historically been a primary focus of insurance regulation, with many companies becoming insolvent, it is critical to create risk based capital standards and implement an accreditation program to help identify and prevent insolvencies.

The second type of regulation is market conduct. Insurance policies unlike most other consumer products or services are contracts that promise to make a certain payment under certain conditions at some point in future. Consumers rely on the representation of the seller or agent to a far greater extent than for other products. Regulation therefore
exists to prevent competition that fosters the sale of unfair and deceptive policies, sales and claim practices.

The third type of regulation is Information for Consumers. Because of the nature of insurance policies and pricing, consumers have had a relatively little information about the quality and comparative cost of insurance policies. Regulation is needed to ensure that consumers have access to information that is necessary to make informed insurance purchase decisions and compare prices.

The fourth type of regulation is on Insurance Availability. Some insurance is mandated by law or required to complete financial transactions such as mortgage loans. In a formal competitive market, participants compete by attempting to sell to all consumers seeking the product. However, in the insurance market, participants compete by attempting to “select” only the most profitable consumers. This selection competition leads to availability problems and redlining. Regulation exists to limit destructive selection competition that harms consumer and society. Regulation is particularly important in the wake of disruptions such as natural disasters or terrorist attack.

Individual and business are self-interested utility maximisers who will comply with regulation if the probability of swift detection and sanction by the regulator in combination with the amount of the penalty outweighs the benefits of non-compliance. Basic factors that can motivate compliance and beyond compliance behaviour are fear of detection and legal punishment, concern about the consequences of acquiring a bad reputation and a sense of duty.

2.5 Strategic responses

Strategic responses are a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm’s objective Pearce & Robinson, (2002). It is a reaction to what is happening in the environment of the organization. For any organization to live and survive, it is important that it responds positively to its environments and changes in it. The substantial achievement of regulatory objective
depends on sound problem identification, full diagnosis of the factors and institutional incentives underlying the problem, the choice of policy instruments and implementation. Policy makers therefore need to understand and take account of the individual characters of the target group including how they can reasonably be expected to respond to rules and enforcement strategies and both their internal and external incentives to comply with regulatory objectives.

Regulators may design results oriented policy instruments by developing data collection mechanisms and methodologies to systematically identify outcomes relevant. They may also introduce self-regulation and internal management systems for firms and also encourage the adoption of industry standards and internal management systems to ensure outcomes that accord with regulation goals, for example, ISO Certification. They may also respond by use of quality assurance systems and management in order to minimize risks. Rewards and incentives for high or voluntary compliance which reduces the burden of routine inspections, offering penalty discounts for minor incidents of non-compliance that do occur, simplifying licenses and permits. Other punitive measures would be large fines and suspension of licenses. To increase compliance, regulators need to nurture organizational capacity to comply through offering education, assistance and consultations and encouraging the growth of compliance professionals with special expertise in the area.

Total Quality Management (TQM), is one of the strategies a firm may use to respond to regulation and compliance. TQM refers to a quality emphasises that encompasses the entire organization from supplier to customer. It stresses a commitment by management to have a continuing companywide drive toward excellence in all aspects of products and services that are important to the customer (Herzer, 1996). TQM requires a never ending process of continuous improvement where the end goal is protection which is never achieved but always sought. It also requires employee empowerment or involving employees in every step of the production process by building communication networks that include employees’ open, supportive supervisors moving responsibility from both managerial and staff responsibilities to production employees building high morale.
organizations as well as formal techniques such as team building and quality circles. This strategy can be used to enhance compliance and supervise firms on regulation. Benchmarking as a strategy of TQM involves selecting a demonstrated standard of performance that represents the very best performance for process or activities very similar to yours. The idea is to develop a standard or a benchmark against which to compare your performance. This strategy can best be used to learn from the best players in the Industry and adopt the strategies.

Risk Based Supervision (RBS) is designed to work as a structured process that identifies the most critical risks faced by individual bank and systematic risks in the financial system, (Deloitte, 2014). RBS process is forward looking with a focus on evaluating both present and future risks, identifying incipient problems and facilitating prompt intervention or early corrective actions. The risk focussed supervisory process provides flexible and responsive supervision to foster consistency, coordination as well as communication among supervisors relies of the understanding of the institution, the performance of the risk assessment as well as the development of a supervisory plan and procedures tailored to the risk profile of individual institutions, (NDIC,2012). In essence, RBS can be used to supervise regulation and compliance in the Insurance Industry.

Restructuring is another type of strategy a firm can use to achieve its objectives. It means redesigning an organisation’s structure with the intent of emphasizing and enabling activities most critical to a firm’s strategy to function at maximum effectiveness. Business Process Reengineering (BPR), is a popular method by which organizations worldwide undergo restructuring efforts to remain competitive. It involves fundamental rethinking and radical redesigning of a business process so that a company can best create value for the customer by eliminating barriers between employees and customers. (Pearce & Robinson). BPR is intended to place the decision making authority that is most relevant to the customer. Downsizing and Self-Management are also reengineering processes used to structure organization to help in strategy implementation. Downsizing is eliminating the number of employees’ particular middle management in a company while self-management is allowing work groups or work as a group or team without a direct supervision exercising the supervisory role. These teams set parameters of their
work make decisions about work related matters and perform most of the managerial functions previously done by their direct supervisor.

Strategic alliances are arrangements between two or more companies in which they both contribute capabilities, resources or expertise to a joint understanding, usually with an identity of its own with each firm giving up overall control in return for the potential to participate in and benefit from the joint venture relationships. Engaging in alliances whether long term or one time lets each participant take advantage of fleeting opportunities quickly, usually without tying up vast amounts of capital. Strategic alliances allow companies with world class capabilities to partner together in a way that combines different core competencies so that within the alliance each can focus on what focus on what they do best.

2.6 Challenges of Regulation and Compliance

Regulation often is not at the table for key strategic decisions. Regulatory group is viewed as a “necessary evil” in many organizations and is more of a reactive than a proactive organization. In some organizations, key strategic decisions such as market entry are bereft of regulatory counsel from the onset and the regulatory function is brought. Emerging markets where companies are entering an uncharted regulation environment with little or no knowledge about compliance issues as well as lack of visibility and lack of authority for regulators pose challenge to compliance.(Elbert, Hafez & Setu, 2011).

(Ibarreche, 2003) outlines some issues of strategy implementation, Firstly, the purpose is impossible, not clear or is too easy or its not shared with others. Secondly, the process of implementation is not clearly defined, is too detailed or has inadequate or no information, people are not capable or responsibilities not clearly defined leading to overlap and confusion. Thirdly, resources may be unavailable, not clearly accounted for, there may be delay of resources or lack of control that may lead to stalling of the implementation process, people are not involved in planning, not trained, lack of authority, poor accountability and lack of motivation will hamper the process of strategy implementation.
Lastly poor support system and lack of follow up may hamper the strategy implementation process.

In the financial sector, challenges of regulation and compliance include the structural changes that are reshaping the global markets leading to breakdown of traditional barriers that once segmented the market for financial services. This has resulted to financial institutions such as banks with more capital and greater opportunities to cross-sell insurance with traditional bank products thereby creating a threat to non-diversified insurers. The recent introduced Bank Insurance Model also known as Bancassurance which is basically a partnership or relationship between a bank and an insurance company whereby the insurance company uses the bank sales channel in order to sell insurance products to the banks’ clients base. As a result the staff may not be well equipped with insurance knowledge thereby leading to underselling or misrepresentation of the information. This therefore may undermine the compliance whereby banks may get greater control by banks creating too much competition with existing insurers.

Powerful technological innovations and changing regulatory structures worldwide has contributed to newer threats emerging from non-traditional competitors like retailers, finance companies and internet providers who are using new Information Technology platforms to circumvent traditional channels such as insurance agents. These forces are leading to an unprecedented wave of consolidation in the Insurance Industry like mergers and acquisition of insurance companies and reinsurance companies. Regulatory gaps, Regulatory overlaps, multiplicity of regulators and inconsistency of regulations and differences in operational standards pose great challenge to regulation and compliance. (Cafral,2011).
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter describes the research design, data collection methods and the techniques for data analysis that were used.

3.2 Research Design
Research design refers to the way a study is planned and conducted, the procedures and techniques employed to answer the research problem or question. A case study was used to conduct the research since it was dealing with one institution, the Insurance regulatory authority (IRA). A case study is an in-depth exploration of a particular context that involves the collection of extensive qualitative data, usually through an interview, observation and document analysis, (Kothari, 2007).

The primary purpose of a case study is to determine factors and relationships among factors that have resulted in the behaviour under the study. It involves a careful and complete observation of a social unit; be that unit a person, a family, an institution, a cultural group or even an entire community. This design gathered in-depth information about the responses of Insurance Regulatory Authority in enhancing compliance in the insurance industry.

3.3 Data Collection
This study involved collection of both primary and secondary data. The primary data was collected through an interview guide, (appendix I ) which used open ended questions so as to guide the interviewer on the interview as well as allow further probing of the interviewees. The interview targeted six corporate level managers at the Insurance Regulatory Authority who included the Chief Executive Officer, Compliance Manager, Head Research and Development, Corporation Secretary and Legal Affairs, IT Manager and Corporate Communications Manager. The choice of the number was for easier analysis and also the chosen interviewees hold key positions and are important in making
decisions. The secondary data was obtained from IRA publications, articles about the industry players, website and insurance journals.

### 3.4 Data Analysis

Data analysis procedure includes the process of packaging the collected information in order and structuring its main components in a way that the findings can easily and effectively be communicated, (Kothari, 2007). It involves examining, categorizing, tabulating, testing or otherwise recombining both quantitative and qualitative evidence to address the initial proposition of the study.

Data collected was analysed through content analysis since it is a qualitative research. Content analysis is a research technique used to determine the presence of certain words or concepts within texts or sets of texts. The researcher quantifies and analyses the presence, meanings and relationships of such words and concepts then make inferences about the messages within the texts.

To conduct a content analysis on any such text, the text was coded or broken into manageable categories on a variety of levels; word, word sense, phrase, sentence or theme and then it was examined using content analysis. Content analysis is a measure of pervasiveness of the item being analysed, (Kothari, 2007). In this research, content analysis was used to analyse the responses collected from the interviewees so as to bring out common theme or data from the various responses collected.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents a comprehensive presentation of the findings of the study. The objective of this study was to determine the strategic responses adopted by the Insurance Regulatory Authority in enhancing compliance in the Insurance Industry as well as determine the challenges encountered in adopting these strategies. The study involved 5 respondents who included the Consumer Protection Manager, IT Officer, Head of Customer Care, Research and Development Manager and Human Resource and Capital Development Manager.

4.2 General Information and Response rate

This Research targeted to interview a total number of 6 respondents but only 5 were interviewed due to the time factor. This is would include the Chief Executive Officer IRA, unfortunately it was hard to get an appointment with him since he was engaged in meetings. The response of the interviewees however was good though there was time constraint since most of them were busy.

4.3 Regulations Introduced in the Insurance Industry in the recent past

The study sought to find out the strategies adopted by IRA in enhancing compliance in the insurance industry as well as determine the challenges IRA faces in adopting these strategies. Due to the dynamics of business environment experienced in the Insurance Industry in the recent past, there have been new changes introduced on regulations by the Regulator who oversees the industry players and ensures compliance of these regulations. This was done through the Insurance Bill 2011 which was introduced to revise the Insurance Act. All the respondents interviewed acknowledged these new regulations introduced at a time when there is need to enhance fair competition and stable insurance industry. These regulations include:
4.3.1 Minimum Capital Requirements

The minimum Capital requirements for all authorized insurers were raised in order to enhance claims payment and settlement which has been an issue in the recent past. All the Long-term insurers were required to increase their minimum capital to ksh150Million, the General insurers to raise their minimum capital to a minimum of ksh300Million while those transacting as composite insurers to raise their capital to ksh450Million. This regulation was meant to ensure insurance companies and reinsurance companies are solvent and sound to enable them handle claims presented at any one given time and also ensure sustainability. With this requirement, some companies who were not prepared financially would therefore delay in adhering to this new regulation.

4.3.2 Insurance Policyholders Insurance Fund

Policy holder compensation fund is a fund that was introduced in 2003 by the Government to compensate policyholders in event the insurance company is declared insolvent. This fund is managed and administered by a Board where insurance companies and policyholders are required to contribute 0.25% of the premium payable by policyholders in respect of the relevant policy issued to them by authorized insurance companies. This money should be remitted within 30 days of the issue or renewal of the policy every month. The compensation fund is meant to take care of policyholders in event the company becomes insolvent thereby compensating them. With this regulation, there were challenges in terms of collection and remitting the money on time. The regulator should therefore put in place strategies of compliance on this.

4.3.3 Registration and Renewal of Licenses

All renewal and registration of licenses are done online and new fees schedules were introduced as follows in ksh; Insurer 150,000, Reinsurer 250,000, Insurance Broker 10,000, Risk Manager 3,000, Loss Assessor 3,000, Loss Adjuster 3,000, Insurance Surveyor 3,000, Claims Settling Agent 3,000, Insurance Agent 1,000 and Corporate Insurance Agent 1,000. All these fees are paid to the Insurance Regulatory Account. Insurers and reinsurers are also required to deposit some amount with Central Bank of
Kenya as a surety as well as maintain separate accounts for different classes of insurance. Medical Insurance providers were also required to register as Insurance Companies effective 2013, this is to ensure spread of risk through offering other classes of insurance thus enhancing stability of these companies. With low uptake of ICT, this regulation posed challenges in compliance since most of the industry players were not prepared technologically.

4.3.4 Solvency Margins Requirements

As per the new regulation, an authorized insurance company shall be considered insolvent if its wound by the Court under section 219 of the Companies Act or does not meet the solvency requirements prescribed in section 41 of the Insurance Act. The requirements are that no company will be registered if they do not meet the minimum capital required. This minimum paid-up capital must not fall below and if it does, there is a fine of not less than ksh100,000 and another ksh5,000 for every month it falls below the minimum capital required. The Board will determine amount payable as compensation for different type of classes of insurance policies and claims should be made within two years. This guideline ensures proper procedures are taken and policyholders are protected.

4.3.5 Bancassurance Regulation

Bancassurance was also cited by the respondents as one of the regulation that has been introduced. It refers to collaboration between financial institutions and insurance companies to distribute or cross-sell insurance products. These financial institutions have a wide branch network and customer base which can be harnessed to promote accessibility of insurance services thereby deepening insurance protection. The authority issued the guideline on how the financial institutions should apply for their license and their requirement. This guideline therefore provides information on market conduct for intermediaries and insurers and it is also meant to protect the traditional intermediaries as brokers and insurance agents. This regulation affects the banking sector as well leading to an overlap of supervision since the banking sector is regulated by the Central Bank of Kenya thus hampering the compliance.
4.3.6 Commission Restriction/ Structure

The respondents also noted that there was harmonization of the commission paid to agents and brokers. The maximum commission permitted for medical insurance class was reduced to 10% from 20%. This is because this type of class was considered as a high risk class of insurance just like the motor insurance. This structure has enabled level playing ground for all the players reducing unfair practices of undercutting of the premium rates thereby enhancing compliance by the insurance players.

4.4 Strategic Responses in Enhancing Compliance

This part discusses the strategies adopted by the Insurance Regulatory Authority in order to enhance compliance of the described regulations. Some of the strategic responses that the respondents highlighted included; increased use of ICT in supervision and regulation, Research and Development unit enhanced Consumer Protection and Education, Administrative sanctions and increased Risk-Based Capital. This section gives detailed account of the strategic responses mentioned.

4.4.1 ICT Infrastructure

The respondents acknowledged that there was improvement on use of ICT in the industry after the introduction of online services where all players are supposed to submit their returns online as well as register and renew their licenses. As a tool of compliance, ICT ensures that only authorized players in the industry are licensed and the database of each player assists in tracking non-complying companies or individual. This requirement having come in less than three years ago has streamlined the industry by reducing the time used to process the licenses manually thereby ensuring timely registration and efficiency. In January 2014, an Electronic Regulatory System (ERS) for brokers and medical insurance providers was launched. This is a web-based system which enables regulated entities to complete and submit all required returns on-line. Penalties are levied for late registration.

4.4.2 Research and Development

The respondents cited the establishment of the R&D unit where research in the industry is done including analysis of the market and consumers so as to discover the insurance
needs of consumers and also come up with new innovative products that can match the market demands. Through these researches they are also able to identify any risk measures and advise the market players accordingly as well as change the legislations on time as well as give adequate guidelines to enhance compliance. Some of the new emerging insurance issues include underwriting of Takaful insurance (Islamic insurance), PSV underwriting, Bancassurance as well as micro-insurance. Through in-depth research, IRA will be able to come up with better regulations in order to enhance sustainability of business in this sector.

### 4.4.3 Administrative Sanctions

The respondents admitted that there are sanctions that are imposed to non-complying insurance industry players across the board as well as late compliance. Heavy penalties are imposed such as where insurers fail for instance to remit the compensation fund deductions on time which is 2.5% per month until the day the return is filed. Insurance companies engaging insurance agents who are not certified by the insurance Regulatory Authority and have no valid license are penalized a sum of not less than ksh250,000 per every unauthorized and unlicensed agent. These heavy penalties discourage non compliance and assist in raising the level of compliance.

### 4.4.4 Consumer Protection and Education

The respondents acknowledged the introduction of consumer complaint procedures where guidelines are set on responding to these complaints by the respective player to the complainant. There is also an online complaint platform where any unsatisfied customer with any service provider in the industry can submit their complaints. This is meant to deter malpractice thus enhancing compliance. There are many consumer education initiatives that are done geared towards enlightening and empowering consumers of the industry products and services so that they can know their rights hence make informed decisions. The Regulators publishes material on the daily newspapers on issues regarding the industry, organize road shows in the counties to educate the public as well as local Television drama shows.
4.4.5 Risk-Based Capital

The respondents acknowledged the introduction of the risk based supervision. Here there are different minimum capital requirements for each type of insurance business depending on the risk. For instance, Reinsurance companies are required to have a minimum capital base of ksh 800Million, ksh300Million for Long term business Insurer and ksh500Million for General Insurer. Insurers are also supposed report the Micro-insurance as a separate class of insurance due to its high risk just like PSV insurance. This strategy is meant to ensure financial stability of the industry and avoid insolvency due to inability to pay claims. Through this type of supervision, compliance is enhanced as players fear the repercussions.

4.4 Challenges encountered in adopting these strategies

This part discusses the challenges IRA faced in adopting the strategies highlighted above. All the respondents agreed that there have been several challenges towards adopting the strategic responses. The first challenge is low utilization of ICT among the industry players thereby derailing the adoption of the strategies. It emerged that most of the insurance companies had not adopted use of ICT in running the insurance business and most were still using the traditional methods of manually processing insurance covers and filling. This was because most have not invested in new technology in their institutions.

The second challenge is the emerging issues in the industry like micro-insurance underwriting, PSV insurance, Takaful insurance underwriting as well as bancassurance. The respondents noted that these new emerging issues of insurance posed challenges in the industry since they were new in the market and have not been experienced before. There were therefore challenges in implementing the new underwriting regulations with insurance companies. The Regulator however is consulting with the industry players so that there can be sustainable measures to handle the new issues.

The third challenge is poor corporate governance where players are not well equipped and skilled to manage their firms efficiently and effectively in insurance sector thereby hampering the regulatory framework and compliance by the industry players. The
respondents agreed that there was need for all the stakeholders to invest in training their staff on matters of corporate governance so as to ensure a stable business environment.

The fourth challenge is insurance fraud that results in the industry losing millions of shillings through fraudulent claims. This in essence hampers the insurance companies in the way they do their business and thereby denting the image of the industry by the public leading to reduced growth. This challenge may render insurance companies insolvent thereby affecting their compliance.

The fifth challenge that emerged from the respondents is the overlap of supervision where different government institutions have different regulations that sometimes may hinder adoption of these strategies. For instance, in Bancassurance will be regulated by both IRA and CBK, Takaful insurance has to follow some Islamic rules which may not be enshrined in the Insurance Act thus hampering compliance as such institutions may not comply fully due to some social norms that contradict conventional insurance practice.

4.6 Future Strategies

The respondents acknowledged that the Insurance Regulatory Authority has presented a road map in their 5year strategic plan 2013-2018. Some of the future strategies include; monitoring and enforcing relevant provisions of the Insurance Act. This they plan to do by conducting on site inspection and follow up on implementation. This will enhance compliance as well as ensure timely feedback on the same.

The second strategy is to improve consumer complaints handling process. This will be done by reviewing consumer complaints process as well as implement consumer complaints report. This strategy will ensure prompt resolution of complaints thereby enhancing the image of the industry and fair competition thus leading to improved compliance as customers seek to identify with the best and complying insurance industry player.
The third future strategy for IRA is to promote entrenchment of insurance education in the national curriculum. They plan to do this by engaging with the Kenya Institute of Education to develop an appropriate curriculum on insurance. This will enhance appreciation of insurance and improve on insurance literacy. This will eventually empower insurance consumers so that they are able to choose from the best available products. The insurance market will improve and compliance will be of essence.

The fourth future strategy by IRA is to encourage alternative channels of distribution enhance research for the industry. This will be done by conducting studies on available distribution channels and develop guidelines on the new distribution channels to avoid overlap. This will is geared to increase insurance products uptake thereby improving the industry and enhancing compliance by players.

The fifth future strategy by IRA is to enhance access of insurance services in the counties. The recent creation of counties in the country that forms County Government will form new demand for insurance services. IRA plans to conduct feasibility studies in the counties and also develop guidelines for regulated entities operating in the counties. This means the regulations may change and compliance will hence be improved for those companies that would wish to target the county insurance business.

Finally IRA wishes to strengthen human capital in the insurance industry in order to ensure excellence in service delivery. This they plan to achieve by undertaking competency development by reviewing performance management framework, undertake organizational culture change management as well as develop and implement talent management programme. This task will enhance the image of the workforce thereby improving performance of the industry.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the summary and conclusions from the research findings based on the objective of the study as well as highlight on the limitations of the study. Based on the findings, recommendations have been given identifying possible areas for further research.

5.2 Summary of the Findings
The study sought to determine the strategic responses adopted by Insurance Regulatory Authority in enhancing compliance in the insurance Industry and the challenges encountered in adopting these strategies. The study was motivated by the recent regulation introduced in the industry and the challenges experienced by the Regulator in enhancing compliance. This is driven by the need to protect the public as insurance consumers and policyholders by creating laws that govern the insurance industry in matters of licensing, monitoring and preserving the financial solvency of insurance companies, regulating and standardizing insurance policies and products as well as controlling market conduct and preventing unfair trade practices.

The study found that the recent changes introduced in the Insurance Industry have improved the running of insurance business as well as streamlined the industry. There being a regulator with powers and Authority has enhanced the public image of the industry as well as recorded improved growth rates due to increased uptake of insurance products. There have been however emerging issues that the Regulator is trying to cope with like the insurance fraud, insolvency issues, minimum capital requirements, underwriting of PSV insurance, Takaful insurance, and Bancassurance. The Regulator has taken strategic measures in order to enhance compliance of the newly introduced regulations through increased use of ICT, Research and Development, administrative sanctions, consumer protection and education as well as use of Risk-Based Supervision.
The study also found out that IRA encountered challenges in adopting its strategies. Some of these challenges included low utilization of ICT, emerging trends in the industry, poor corporate governance, insurance fraud and overlap of supervision.

### 5.3 Conclusion of the Study

The study established that Insurance Regulatory Authority just like any other regulatory institution is faced by challenges of compliance and must therefore devise strategic measures in order to ensure compliance and harmony of all the players and stakeholders. There is need for regulation in order to curb monopoly, promote competition and set standards for prices and quality. Strategic responses adopted by the regulator must also take care of the emerging issues in the market and the global environment. The challenges of adopting these strategies revolve around harmonization of the players and consumer protection and education that will improve the understanding and acceptance of insurance thereby enhancing the image of the insurance industry.

### 5.4 Recommendations of the Study

The Insurance Regulatory Authority has the capacity to change the way business is run in the insurance industry. Having been given the mandate and authority, the need to invest more on consumer education and training as well as support the insurers in training of their staff on matters of corporate governance through seminars and also enhance benchmarking of the industry players. The Regulator needs also to invest and encourage insurers in investing in Research and Development in their companies so as to come up with innovative products that meet the current market demand. This will enhance uptake and increase the growth of the industry. IRA needs to create awareness of the various careers in the industry by offering training programmes that assist in career advancement through partnering with insurance institutions like The College of Insurance. This will create more opportunities for young and old to venture in the Insurance careers thereby making it a competitive career industry.
5.5 Limitations of the Study
The major limitation for this study was getting the appointments for interviews. Being a non-employee of this company, it proved almost impossible to get appointments from the right persons. This was because of time and October is a busy month for IRA since it is when renewals of licenses for all players are processed. This affected the time given by the interviewees thus may not have given the information exhaustively.

5.6 Suggestions for further Study
From the study carried out, it was observed that there were emerging issues in the market that cannot be ignored. These included underwriting for micro-insurance, Takaful insurance, PSV insurance as well as bancassurance issues. In view of these emerging issues, strategies adopted by IRA may change with time and this may form basis for further investigation in terms of regulation and compliance.

5.7 Recommendations for Policy and Practice
According to the findings presented, IRA needs to invest in skilled workforce and ensure also the industry recruits only the best from the industry so as to ensure proper management of insurance firms and enhance understanding of the regulatory framework. There is also need for change agents in IRA and the insurance industry as a whole since most of the workforce in senior management is composed of older generation who may be resistant to new technology and innovation. IRA should also expand its complaints desk to not only protect policyholders but also other consumers of services like motor assessors, risk managers who may mislead clients or are unethical in their practice. In terms of policy, IRA needs to design a harmonized policy plan that ensures sustainable use of best practices in the industry on issues of regulation and compliance.
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Appendices

Appendix I: Letter of Introduction

TO WHOM IT MAY CONCERN

The bearer of this letter ... JANET KIHARA

Registration No... 0611 B.Y. 2004 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: Interview Guide

This part is aimed at gathering information on strategies adopted by the Insurance Regulatory Authority to enhance compliance in the insurance industry in Kenya and their future strategies.

Section A: Respondent Information
1. Designation
2. Age bracket
3. Years worked in the Organization

Section B: Regulation and Compliance
4. What are some of the regulations introduced in the Insurance Industry in the recent past?
5. What prompted these regulations you have described?
6. How have these regulations impacted on the industry?
7. How do you ensure compliance of these regulations?
8. What are the consequences of non-compliance?

Section C: Strategic Responses
9. What strategies have you adopted to enhance compliance of the insurance industry players?
10. How do these strategies impact on the industry?
11. How has the industry responded to these strategic responses?
12. What strategies work for you?
13. What challenges have you experienced in implementing these strategies?
14. How do you plan to counter the challenges of non-compliance?
15. What future strategies do you envision for the Industry?