CHALLENGES IN THE UPTAKE OF MARINE CARGO INSURANCE IN KENYA

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

NOVEMBER, 2015

DECLARATION

This research project is my original work and to the best of my knowledge it has not been presented for a degree or certificate in any other university.

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ACKNOWLEDGEMENTS

First and foremost, I would like to thank the Eternal and Almighty God for being my refuge, fortress, source of strength and enabling me to complete this MBA program.

I am indebted to my supervisor Caren Angima for her continuous support, guidance, patience, and encouragement throughout the entire research project period. This project will not have been a success without your wise council and support. Thank you for your understanding and availing your time to guide me even over the weekends and despite your busy schedule and other commitments. May the face of the Almighty God shine on you and bless you in all your endeavors abundantly.

I will not forget to appreciate the support and encouragement given to me by Dr. Joseph Aranga and the University of Nairobi Mombasa campus school of business staff as well as my classmates and discussion mates particularly George Munene among others. Additionally, tribute goes to my colleague at College of Insurance Mombasa campus; Kefah Morebu for his computer skills which was handy in typesetting my project. May the Almighty God reward and bless you all.

This MBA project would not have been successfully completed without the invaluable support and patience from my dear wife, Nancy Chepkoech Rono. Thank you for your understanding during my long absence from home.

DEDICATION

I dedicate this research project to my lovely wife, Nancy Chepkoech Rono and our children Joshua, Caleb and Joy. Thank you and God bless you in a special way for your prayers, encouragement, patience and moral support throughout the entire MBA program.

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ABBREVIATIONS AND ACRONYMS

AKI:	Association of Kenya Insurers
AIBK:	Association of Insurance Brokers of Kenya
CIF:	Cost Insurance Freight
FOB:	Free On Board
GCC:	Gulf Cooperation Council
GDP:	Gross Domestic Product
ISCOS:	Intergovernmental Standing Committee on Shipping
IRA:	Insurance Regulatory Authority
KGCHA:	The Kenya Groupage Cargo handling Association
KIFWA:	Kenya International Freight and Warehousing Association
KMA:	Kenya Maritime Authority
KRA:	Kenya Revenue Authority
MENU:	Middle East and North Africa
MIPs:	Medical Insurance Providers
PWC:	Pricewaterhouse Coopers

ABSTRACT

Despite the fact that modern insurance has been practiced in the emerging and developing economies since the early 20^{th} Century, it is still a fact that insurance uptake is still very low compared to the developed economies. The lack of development of the insurance sector in many of these economies is a matter of concern, as research shows that the sector can contribute to both financial and economic development. This study set out to determine the challenges in the uptake of marine cargo insurance in Kenya and the possible solutions to the challenges. Insurance uptake or penetration refers to the ratio of Gross Direct Premiums to the Gross Domestic Product (GDP) of a country and it varies greatly, reflecting different stages of economic development (Masese, 2013). To achieve the objectives, primary data was collected through the use of questionnaires. Underwriting managers, business development managers and branch managers were interviewed from 36 different insurance companies. It was established that there are many challenges and factors causing low uptake of marine cargo insurance in Kenya and these include; procurement of marine cargo insurance from the overseas insurance markets, lack of knowledge and awareness of the benefits of marine cargo insurance amongst the insuring public, negative perception of marine cargo insurance by the importers and exporters, lack of trust in the insurance companies because of non-payment of claims or lengthy claim processes, perception that marine insurance bought overseas is less expensive, lack of comprehensive and effective regulatory regime which inhibit the growth of marine cargo insurance, shortage of skilled and experienced manpower in marine insurance, lack of collaboration and co-operation between various key stakeholders in the maritime sector as well as various government agencies in the maritime sector. The Insurance Regulatory Authority plays a central role in fast tracking the uptake by implementing Section 20 of the Insurance Act Cap 487 and enacting other appropriate legal framework in collaboration with other Government compliance agencies. In partnership with the Association of Kenya Insurers which is a body that provides a forum for all insurance companies, the authority can also play a critical role in creating public awareness about marine cargo insurance and the benefits of procuring marine cargo insurance from the local insurance market.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Business entities worldwide are facing unprecedented risk exposures which threaten their assets. Risk which can be defined generally as the uncertainty of loss is an inherent part of our lives and maritime businesses are not an exception. Though there is a general lack of agreement on the definition of risk by risk management and insurance scholars, risk can simply be defined as a situation or condition in which there is a possibility of an adverse deviation from a desired outcome that is hoped for (Vaughan & Vaughan, 2008). Risk is universal and lies at the heart of all economic activities of individuals, businesses and governments. It is therefore a perverse condition of human existence and people must find proper ways of managing or dealing with it (Skipper & Kwon, 2007).

Insurance is anchored and has its foundation on various theories including risk theory, the economic theory of insurance, expected utility theory, probability theory, risk pooling theory and ruin theory. Risk theory is a very pertinent theory in insurance and this is evidence by the fact that the two most important models in insurance namely; individual risk theory model and the collective risk theory model have both developed in the field of risk theory (Cramer, 1955). Ruin theory on the other hand enables insurers to use models such as the dependant model to describe the cash flows of an insurer and determine properties of the probability of insolvency in both short and long term. This is of essence in determining the size of insurance pools and by extension the financial stability of insurance companies (Gerber, 1979).

Various types of risks affect individuals and businesses. These may include economic, financial, maritime, social, and death among others. In the maritime business sub sector, the following are some of risks and hazards en-route the voyage contributing to the general risks exposure due to the long distance trade in the high seas: seasonal weather patterns, ice bergs, sand banks, heavy weather, theft, dangerous harbours and piracy. There are generally two broad techniques that are used in risk management for dealing with risks and by extension maritime risks; that is risk control and risk financing (Skipper & Kwon, 2007). Risk control focuses on minimizing the risk of loss to which the firm is exposed and includes the techniques of avoidance and reduction. Risk financing on the other hand involves devices that focus on arrangements designed to guarantee the availability of funds to meet those losses that do occur (Vaughan & Vaughan, 2008). It includes the techniques of risk assumption and risk transfer where the insurance device plays a critical role.

1.1.1 Risk Transfer

Risk transfer is a mechanism by which the financial consequences of an event are shifted from one party to another (Dickson, 1984). The most commonly used method of transferring risk or the primary approach to risk transfer is through the insurance device. The concept behind insurance is that a group of people exposed to similar risks come together and make equitable contributions towards formation of a pool of funds from where a few from the group who suffer loss are paid from. Insurance is hence a means of spreading an individual's risk across a number of people so as to make it more bearable for the individuals exposed to the risk (Vaughan & Vaughan, 2008).

According to Dorfman (2009) insurance is one of the most interesting and important transaction made by individuals and businesses. This is because the availability of insurance enables risk averse individuals and entrepreneurs to undertake higher risk, higher in return activities than they would do in the absence of insurance. The insurance device as a risk transfer mechanism has its foundation on various theories including risk theory, the economic theory of insurance, expected utility theory, probability theory and the risk pooling theory. Broadly, insurance is classified as either life insurance or non-life insurance business (general insurance). Both categories are further sub divided into different classes based on the nature of risks covered.

1.1.2 Marine Insurance

Marine insurance is one of the many classes in general insurance which is concerned with insurance of maritime risks and perils of the sea. The UK Marine Insurance Act, 1906 defines a contract of marine insurance thus; “A contract of marine insurance is a contract whereby the insurer undertakes to indemnify the assured in a manner and to the extent thereby agreed against marine losses that is to say, losses incident to marine adventure” (Section 1(4).

According to the Insurance Act CAP 487 (2010) of the laws of Kenya, marine insurance business means the business of effecting contracts of insurance upon vessels of any description including cargo, freight and other interests which may be legally insured in or in relation to the vessel, cargo, freight, merchandize and property of whatsoever description insured for any transit by water, land, air or all the three. It may include warehouse risks or similar risks in addition or incidental to such transits.

There are two distinct branches or categories of marine insurance. Firstly; hull insurance which involve the insurance of ships or vessels covering loss or damage to the hull and machinery of a vessel as well as insurance of ship owners’ various interest and liabilities (Boen, 2013). Secondly; cargo insurance which refer to the insurance of goods in transit from one place to another by sea, by inland waterways, by rail, road and air as well as the insurance of freight at the risk of the carriers.

Insurance uptake in Kenya generally remains predominantly in the motor insurance, fire and medical insurance classes (PWC Kenya, 2012). Concerning the uptake of marine insurance in particular, the penetration has not only remained dismal but has recorded an alarming decline over the last five years compared to other classes of non-life insurance (AKI, 2013).

1.1.3 Concept of Insurance Penetration

Insurance penetration refers to the ratio of Gross Direct Premiums to the Gross Domestic Product (GDP) and it varies greatly, reflecting different stages of economic development (Masese, 2013). Penetration ratio in a country is useful for various reasons including: comparing with the previous ratios in the same country and thus check the movement in insurance sector's contribution to the overall economy, to establish insurance industry trends and to guide investors in assessing the viability of investing in the country.

Despite the fact that modern insurance has been practiced in the emerging and developing economies since the early 20th Century, it is still a fact that insurance uptake is still very low compared to the developed economies. The lack of development of the insurance sector in many of these economies is a matter of concern, as research shows that the sector can contribute to both financial and economic development. It is pertinent to note that the insurance sector remains undeveloped in these economies, even after controlling for income levels and demographic characteristics. This is a matter of concern because the sector could make an important contribution to financial and economic development (Marsh, 2014).

Various scholars on insurance penetration have suggested a number of measures to accelerate the development of the sector including: wider introduction of mandatory insurance lines that have clear positive externalities, continuing the privatization process for government owned insurers, employing non capital techniques to force rationalization of insurance sectors with too many small and inefficient players, removing tax distortions, taking steps to stabilize motor third party liability markets (typically the largest line of business), strengthening reporting and disclosure, regulating banc-assurance, improving consumer protection (Lester, 2011).

1.1.4 Insurance Industry in Kenya

The insurance industry in Kenya plays a key role in the country's modern economy and contributes to its uptake and development. The industry has developed over the years since it was introduce by the British settlers in the early 20th Century to provide a common pool where insurable risks from individuals and businesses are handled and managed effectively.

There were 49 operating insurance companies as at the end of 2014. 25 companies wrote non-life insurance business only (General insurers), 13 wrote life insurance business only (Life insurers) while 11 were composite (both life and non-life). There were 198 licensed insurance brokers, 29 medical insurance providers (MIPs) and 5,155 insurance agents. Other licensed players included 133 investigators, 108 motor assessors, and 25 loss adjusters, 3 claims settling agents, 8 risk managers and 25 insurance surveyors (AKI Annual Report, 2014). Though the insurance industry in Kenya has recorded some positive growth over the years and has been identified in the Vision 2013 as critical in the country's transformation under the economic pillar, low penetration has remained a night mare to the industry as compared to other emerging markets and its economic peers in the world.

Low penetration of insurance in Kenya is a phenomenon that the insurance sector has grappled with since insurance was introduced by the colonialists in the early 20th Century. Insurance penetration in Kenya marginally increased to 3.44% in 2013 from 3.16% in 2012, but this growth is still very low compared to South Africa the leading insurance market in Africa which recorded an overall penetration of 15.4 % in 2013. The Insurance Industry Annual Report shows that the level of uptake of non life insurance in Kenya was 2.28% against a population of approximately 44 million compared to South Africa which had the highest penetration level in Africa at 2.7% against a population of 53 million (AKI, 2013).

According to PWC Kenya (2012), insurance uptake in Kenya remains predominantly in the motor, fire and medical insurance classes. This assertion is supported by the Insurance Industry Annual Report 2013 (AKI 2013) where motor insurance gross premium was recorded at shs.33.8 billion accounting for about 39% of the total non life premium, followed by medical insurance which recorded shs. 20.82 billion (24%) and fire insurance (commercial and domestic) which accounted for shs.9.55 billion (11% of the total non life premium). The other classes including; aviation, engineering, liability, (marine), personal accident, theft, WIBA and miscellaneous shared the remaining 26% of the non life gross written premium in 2013.

Regarding the uptake of marine insurance in particular, the gross written premium for marine insurance in Kenya has not only remained dismal but has recorded an alarming decline over the last five years compared to other classes of non-life insurance. The percentage growth of marine insurance in the year 2013 was recorded at 9.84% as compared to motor insurance - the leading non-life insurance class in Kenya which recorded a growth of 24.1% in the same year. A further analysis of available statistics reveals that the percentage growth of marine insurance dropped to a dismal 9.84% in 2012/2013 from an impressive growth of 23.57% in 2009/2010 despite the high and steady growth of imports and exports over the same period (AKI, 2013). Moreover, statistics from the Kenya Revenue Authority and AKI indicates that in 2012, the gross written marine insurance premium by local marine underwriters was a paltry 2.6 billion Kenya shillings compared to approximately 71 billion Kenya shillings which was used to procure marine insurance from abroad the same year. It is also pertinent to note that a recent survey by AKI estimates that about 90% of marine insurance business in Kenya is cargo business (imports and exports) while the remaining 10% is restricted to small fishing and pleasure vessels as well as yatch (AKI, 2012).

1.2 Research Problem

In spite of the fact that modern insurance has been practiced in the emerging and developing economies for over 100 years, it is still a fact that insurance uptake remains very low compared to the developed economies (Lester, 2011). The lack of development and growth of the insurance sector in many of these economies is a matter of concern, as research shows that the sector can contribute to both financial and economic development. It is pertinent to note that the insurance sector remains undeveloped in these economies, even after controlling for income levels and demographic characteristics (Marsh, 2014).

In Kenya, modern insurance has been practiced since it was introduced by the British in the early 20th Century, but it is a matter of concern that insurance uptake is still very low, not only in Kenya but the African continent as a whole. According to analysis by AKI, it is clear that the rate of adoption of insurance products for both general insurance and life insurance in Kenya though growing remains very low as compared to its peers and the developed economies. In particular, the gross written premium by Kenyan underwriters for marine insurance has not only remained dismal but has recorded an alarming decline over the last five years compared to other classes of non-life insurance (AKI, 2013). This is in spite of the continuous annual increase in the value of imports and exports over the same period in the country according to available statistics from the Kenya Revenue Authority (KRA).

Various studies have been carried out on the insurance industry in Kenya and other parts of the world, but these studies have mainly considered reasons for low penetration of life insurance and penetration of insurance in a general context. Majority of the studies have also dealt with strategies and marketing of insurance products. Karimi (2011) did a survey on the external environmental challenges affecting the performance of health insurance sub sector in Kenya. Lester (2011) in his study of the insurance sector in the Middle East and North Africa (MENA) focused on general challenges in the insurance sector. Lugalia (2011) study focused on the impact of strategic alliances between banks and insurance firms in Kenya. Gitau (2013) focused her study on strategies adopted by Kenya insurance companies to alleviate low insurance penetration. Nthenge (2012) in his study focused on challenges facing the success of insurance services provision in Tanzania. Odemba (2013) focused on factors affecting uptake of life insurance in Kenya. Wanjiru (2013) carried out a study on challenges affecting marketing insurance services.

Most of the above studies have been done from the perspective of business disciplines such as marketing, strategy, and finance other than from the insurance disciple. Consequently, important theoretical concepts of marine insurance such as the risk pooling, risk theory and risk transfer among others appear not to have been applied. More importantly, all these studies generally address the growth of life insurance sub sector and the insurance industry as a whole but do not address the slow growth in other equally significant sub sectors of the insurance industry such as marine insurance. A knowledge gap thus exists and this is the gap that this study sought to fill. The study therefore sought to provide answers to the question: what are the challenges in the uptake of marine cargo insurance in Kenya?

1.3 Research Objectives

The objectives of the research were to:-

(i) Determine the challenges in the uptake of marine cargo insurance in Kenya.

(ii) Determine the possible solutions to the challenges in the uptake of marine cargo insurance in Kenya.

1.4 Value of the Study

The research will have a lot of benefits to the various stakeholders in the society. The findings of this research will be beneficial to scholars and researchers as it will add to the furtherance of the existing body of knowledge in the field of insurance. More importantly, the study will help to identify areas requiring further research and hence contributing to furtherance of knowledge.

Insurance companies in Kenya are likely to use the findings of this study to understand the factors that underlie the purchase of marine cargo insurance by importers and exporters from the overseas rather than from the local Kenyan market. This study will give them more insight in marine insurance which appears to be a grey area of insurance business in Kenya and enable them to craft tailor made cargo insurance policies which will meet the economic needs of maritime businesses in Kenya.

The findings of the study will also be of immense benefit to the government as the policy makers. The Insurance Regulatory Authority (IRA) will use the study to formulate policies and come up with structures that will improve the uptake of marine cargo insurance. IRA may also use this study to identify the areas of support in marine cargo insurance and come up with regulations that can provide a conducive economic maritime environment. In view of the billions of shillings by way of marine cargo insurance premiums which is annually sent to overseas insurers, IRA will be motivated to collaborate with other government agencies such as the Kenya Revenue Authority (KRA) and the Kenya Maritime Authority (KMA) on how to tap and locally retain the marine cargo insurance premiums which is sent overseas to procure cargo insurance. Enhanced marine cargo insurance uptake will directly influence Kenya's GDP, thus positively impacting the economic pillar of national development under vision 2030.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature on Theoretical Foundation, Risk transfer through insurance, insurance penetration and the challenges in insurance penetration. The study will draw from the various diverse approaches to insurance penetration by different scholars.

2.2 Theoretical Foundation

The theories discussed in this section are risk theory, ruin theory and economic theory of insurance, together with their application to the area under study.

2.2.1 Risk Theory

According to Cramer (1955), the object of the theory of risk is to give a mathematical analysis of the random fluctuations in an insurance business and discuss the various means of protection against their inconvenient effects. The theory of risk is a very important subject in insurance. This is evidenced by the fact that the two most important models in insurance namely; the individual risk theory model and the collective risk model have both developed in the field of risk theory. David, (1960) observed that the only hope for a unified approach to insurance lies in an analysis of such models. Despite the criticism that these theories are of limited practical significance, the theories may prove to be extremely valuable in understanding the concept of insurance.

The individual risk theory model which is also referred to by various scholars as the classical insurance theory uses the individual policy as the basic unit of analysis. The characteristic which is examined in this model is the gain or loss resulting from an individual policy. The gain and losses of all policies are then summed to determine the aggregate gain or loss accruing to the insurance company. In this type of analysis there is no time variable, and all probabilities and values are stated for a fixed time period say one year; hence it can be viewed as a static analysis. The collective risk model on the other hand is a model where the total gain or loss of the insurance company is the main concern and individual policies are disregarded. The model views the insurance mechanism as a continuous game of chance between the company on one side and the totality of policyholders on the other. Additionally, time is included as a variable in the analysis and in effect collective risk theory treats insurance as a stochastic process that is, describing a value in terms of random sequences and into which a time parameter is introduced. Random events called claims occur from time to time and these are balanced by a continuous flow of premium from policyholders. In general insurance for instance, there are two main aspects in which a knowledge of the elements of risk variation and risk theory is needed; first is the rate fixing process and second is the question of financial stability and this can be generalized respectively into the knowledge of the mean and variance of the risk involved (Beard, 1957).

One of the short comings of the traditional risk theory however, is that it has tended to view the insurance firm too much from within. The attention of the risk theorists appears not to have taken into consideration the fact that an insurance firm exist in an economic environment within which it must compete with other insurance firms as well as other institutions which provide close substitutes to insurance services (James, 1987). These include the financial institutions such as banks, micro-finance firms, savings and credit societies and trading in shares. Another notable short coming of risk theory is that its approach to the evaluation of managerial and regulatory policies is deficient because it cannot provide any insight into how acceptable insolvency probabilities are determined.

Risk theory is of essence in insurance penetration in that risk theory models such as the collective risk model can be used by insurance companies to determine or fix adequate premium rates in general insurance which are sufficient to pay all future claims. Sufficient and adequate premium collection will impact positively on the financial stability of the insurer which in turn gives confidence to the insuring public and hence increase the demand for insurance products and subsequently high penetration of insurance.

2.2.2 Ruin Theory

In insurance literature, the occurrence of an aggregate loss that is so large as to deplete the insurance fund is captured by the concept of ruin. Loosely speaking, ruin can be thought of as meaning insolvency of an insurance company. For instance, when the surplus of an insurance company falls below zero, the insurer has run out of money and it is said that ruin has occurred (Gerber, 1979). The concept of ruin is very significant in risk pooling because using models such as the time dependent model; one can be able to describe the cash flows of an insurer and to determine properties of the probability of ruin in both the short term and the long term. This in turn will be critical in determining the size of insurance pools and its financial stability.

Researchers have suggested that a possible objective criterion for management of an insurance pool is to maximize the probability of ruin in a given time period or perhaps maximize returns subject to maintaining a specified probability of ruin (Buhlmann, 1970). The aggregate premium surplus above the expected value of the aggregate loss required to maintain a particular probability of ruin is referred to as the buffer fund which is crucial for an insurance company in maintaining solvency at all times. The ruin theory is very significant for marine underwriters who are often faced with excessive market fragmentation resulting to lack of adequate critical size to build ample risk pools. Additionally, the theory is critical to a marine insurer who experiences two opposing cash flows: incoming cash premiums and outgoing claims. The essence in this case for the insurer to be certain that the incoming cash premiums and the outgoing claims is maintained at a ratio which is acceptable to avoid occurrence of ruin.

2.2.3 Economic Theory of Insurance

According to economic theorists of insurance, the existence of risk in an approximate static state that causes an economic loss. On the other hand, assumption of risk is a source of gain to society, and a part of the gain is obtained by the risk-takers as their special reward. Economists have shown through various research studies that inequalities in the degree of risk involved in different investments of capital bring about inequalities in productivity (Allan, 1951). Though it is evident that the risk–taking does not create the extra product but the capital itself, it has been proven that capital in a hazardous investment will create more product than that which is not exposed to risk. Assumption of risk is rewarded in the sacrifice in the same sense as labor and hence risk taking is productive only in the secondary sense that it occasions the increase in the productivity of capital. The assumption of economic risk is not always productive, but only when it takes place under certain conditions. When the risk is voluntarily and unnecessarily created, as in case of wager, it is not productive to the society but it is productive only when it is a necessary and unavoidable. This aspect of economic theory is what underlie the risk taking by underwriters where insurable risks are those which are fortuitous in nature in as far as the insured is concerned.

2.3 Risk Transfer through Insurance

The concept of risk revolves around uncertainty where uncertainty means some doubt about the future on what may or may not happen based on either lack of knowledge or imperfect knowledge (Dickson, 1984). Risk is at the center of insurance and the center of life itself. It is universal and lies at the heart of all economic activities of individuals, businesses and governments (Skipper & Kwon, 2007). There are two broad techniques that are used in risk management for dealing with risks i.e. risk control and risk financing. Risk control focuses on minimizing the risk of loss to which the firm is exposed and includes the techniques of avoidance and reduction. Risk financing involves devices that focus on arrangements designed to guarantee the availability of funds to meet those losses that do occur (Vaughan & Vaughan, 2008).

The primary approach to risk transfer is through the insurance device. Insurance involves transferring risk from one party to some other party who are more competent to handle the risk. It is a form of pooling resources in order to deal with the problem of one individually facing an enormous or a catastrophic loss. The concept behind insurance is that a group of people exposed to similar risks come together and make equitable contributions towards formation of a pool of funds from where the losses of a few are paid from. Typically, insurance contracts involve small periodic payments in return for protection against uncertain, but potentially severe losses. This results to income smoothing effect which helps to avoid excessive and costly bankruptcies of firms (Skipper & Kwon, 2007).

For maritime businesses, risk transfer is by way of marine insurance. Marine insurance business means the business of effecting contracts of insurance upon vessels of any description including cargo, freight and other interests which may be legally insured or in relation to the vessel, cargo, freight, merchandize and property of whatsoever description insured for any transit by water, land, air or all the three. It may include warehouse risks or similar risks in addition or incidental to such transits (Insurance Act CAP 487, 2010).The primary function of marine insurance is protection for the owners of ships and cargo against the maritime risks and perils. According to Jervis (2005) the function of marine insurance is to transfer the risk of physical loss or damage or liability arising out of ownership or interest in marine property to the insurers. For large maritime risks, marine insurers further seek protection by way of reinsurance from reinsurance companies and subsequently spread their risks.

2.4 Insurance Penetration

There are various diverse approaches to insurance penetration by different scholars and a few have been considered as indicated hereunder. Insurance agents have been identified to play the following crucial role in insurance penetration including: market makers, transformation agents, reduction of participation costs and service provision. Moreover, studies have established that reduction of participation cost is very crucial for insurance companies to maximize their profits (Ngoima, 2013).

In their studies, Odemba (2013) and Wanjiru, (2013) both agree that agents play a significant role in insurance penetration but they in addition established that the positive impact of agents on insurance penetration have been hampered by various factors including: complex procedures in claims management, failure to adopt information technology, lack of innovativeness in insurance product development, the cost of insurance services and pricing of the insurance policies including poor agents' integrity and poor customer service.

Various studies on insurance penetration have established that low penetration in most countries particularly the low end markets of the world is generally attributed to a wide variety of factors. Lester, (2011) and Nthenge, (2012) established that regulatory factors and immature legal framework, lack of strong market–led initiatives, claims fraud, under-capitalization and legal constraints to new channels of distribution such as banc assurance, insurance market structures, and social/human development factors are major impediments to insurance penetration. Other factors noted include the excessive fragmentation of the insurance markets such that many insurers do not have critical size to build adequate risk pools for underwriting and innovation, low engagement and lack of awareness where the informal markets are largely oblivious of insurance and regard insurance as a preserve of the rich particularly in the Middle East and North African countries (MENA).

Research in various parts of the world indicates that different ways have been employed to deal with the issue of low penetration of insurance. Insurers in countries such as such as Mauritius, Hong Kong and Singapore have crafted new products such as cyber liability and IPO liability insurance in a bid to increase penetration of insurance. More insurers in the same region have opted for alternative channels of distribution of insurance products such as supermarkets, malls and petrol stations to capture the greater market share, catering to the needs and preferences of different segments while cutting frictional costs. Additionally, insurers are now considering direct-to-consumer sales initiatives targeting small business consumers who have in the past been left out. The governments in these countries region have not been left behind either and some have even issued directives to all state-governed banks to implement an insurance broking arm with the aim of increasing the insurance penetration (Marsh, 2014).

2.5 Challenges in Insurance Penetration

Insurance penetration refers to the amount of insurance premium in a country expressed as a percentage of GDP. Low penetration of insurance particularly in most developing countries is generally attributed to several factors including credibility and lack of trust of insurers, poor economic growth, high inflation rates, low income levels, lack of awareness of the benefits of insurance, perceived high premium costs, perceived lack of reinsurance capacity, long claim settlement procedures and lack of innovation by underwriters in product development. Other deficiencies sighted for instance in the Gulf region are a less sophisticated solvency regulation, low transparency standards, and insufficient guidelines to regulate investments of insurers (Gulf Cooperation Council (GCC), 2013).

Regarding challenges in the penetration of marine insurance, a limited awareness of marine insurance and its benefits among maritime business persons of selected countries has limited the take-up of the products. This is partly driven by cultural factors, such as the reliance on the extended family network, fragmented supply base with a large number of small competitors, credibility and poor image of the insurance industry, lack of innovation on product development by the marine underwriters and lack of homogeneous exposure for hull insurance. Another significant challenge is that many maritime merchants and traders continue to regard marine insurance as a redundant expense rather than an effective means of financial protection and hence enterprises purchase marine insurance products only to meet their contractual requirements if any (Willis, 2012).

The marine insurance sub-sector in the developing economies such as the Gulf countries and Africa additionally faces severe shortage of the required experts and skilled workforce. Experts in marine insurance are limited across all the major faculties including risk management, underwriting, and management of marine claims. This has meant increased operating overheads due to high employee acquisition and salary costs for marine insurers (GCC, 2013, Willis, 2012). It is of essence to note that compared to other classes of general insurance, marine insurance has recorded low level of awareness resulting to low up take across selected African countries and other regions of the world.

2.6 Summary of Empirical Literature and Research Gaps

This chapter mainly looked at insurance penetration and its challenges globally. The study discussed three theories of insurance and their significance as well as application to marine cargo insurance. According to previous studies on insurance penetration, low uptake in most countries particularly the low end markets of the world is generally attributed to a wide variety of factors. Lester, (2011) and Nthenge, (2012) established that regulatory factors, lack of strong market–led initiatives, claims fraud, legal constraints to new channels of distribution, insurance market structures, and social development factors are major impediments to insurance penetration.

Many scholars in their studies have identified the crucial role played by insurance agents in the penetration of insurance in Kenya. Roles such as market makers, transformation agents, reduction of participation costs and service provision have been underscored (Ngoima, 2013). Other scholars previously have underscored the need by Kenyan insurance companies to adopted new strategies to alleviate low insurance penetration. Strategies such as introduction of new innovative products, aggressive marketing by insurance companies, technological advancement leading to easier access to information and reduction in transaction costs have been suggested (Gitau 2013). However, all these studies generally address the growth of the insurance industry as a whole and to a large extent the slow growth of life insurance in Kenya but do not address the slow growth in other equally significant sub sectors of the insurance industry such as marine cargo insurance. Thus a knowledge gap exists and this is the gap that this study sought to fill by determining the challenges in the uptake of marine cargo insurance in Kenya and suggesting possible ways of dealing with the identified challenges.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the methodology that was used to conduct the study. It covered the research design, the target population, data collection and procedures and the method of data analysis techniques.

3.2 Research Design

The study used a descriptive cross-sectional census survey approach where there was a one-time interaction in collecting data from the respondents. A descriptive census survey research portrays an accurate profile of persons, events, or account of the characteristics, for instance opinions, abilities, beliefs, and knowledge of a particular individual, situation or group (Cooper and Schindler, 2008). It is concerned with finding out the what, where and how of a phenomenon.

This design method was preferred because it ensured complete description of the situation, making sure that there was minimum bias in the collection of data (Kothari, 2008). A descriptive survey approach was considered suitable in this case because it aided in collecting information from respondents on their attitudes, awareness and opinions in relation to the subject area. Additionally, high reliability was easy to obtain by presenting all subjects with a standardized stimulus which ensures that observers' subjectivity is greatly eliminated Mugenda and Mugenda (2003).

3.3 Population of the Study

The population of study in this research was a census study where the target population was all the thirty six (36) insurance companies (General and Composite) licensed to transact marine insurance business in Kenya in 2014. This method was employed due to the small size of the population of 36 companies which did not validate sampling. The underwriting managers in these companies were targeted and in their absence, the business development managers because they were deemed to appreciate the challenges in the uptake of marine cargo insurance in Kenya.

3.4 Data Collection

The survey was non-experimental, descriptive research method; where the information was collected from a common group through interviews and application of questionnaires to a representative sample of the group. Both primary and secondary data was used in this study. A questionnaire was used as primary data collection instrument. This was because questionnaires are easier to administer and save time. The questionnaire was divided into sections representing the various variables adopted for this study.

Both closed and open ended questions were included in the questionnaire. The open ended questions sought information from the respondents which might not have been captured by the closed ended questions and also gave unrestricted freedom of answer to respondents. The questionnaires were administered through mail survey method and personal interview to the 36 underwriting or business development managers in all the 36 selected insurance companies in Kenya.

3.5 Data Analysis Techniques

Data collected was first checked for completeness and comprehensibility. Analysis of the data was by way of descriptive statistics such as means, standard deviation and frequency distribution. The data was then tabulated with the help of the Statistical Package for Social Sciences (SPSS 20.0) that has data handling and statistical analysis capability which could analyze data and generate descriptive statistics such as frequency, percentages, means and standard deviations.

Data presentation was by the use of pie charts, bar charts and graphs, percentages and frequency tables. This ensured that the gathered information was clearly understood. Content analysis was finally used to analyze the qualitative data on the challenges in the uptake of marine cargo insurance in Kenya. Kothari (2014) explained content analysis as the analysis of the contents of documentary and verbal material. This was therefore found relevant because the data collected was qualitative in nature.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis, presentation and interpretation of the findings. The chapter presents the profiles of the respondents, the response rate, demographic characteristics of the respondents and the findings of the analysis based on the objectives of the study.

4.2 Profiles of the Respondents

The study sought to establish the demographic information of all the respondents in the thirty six (36) targeted insurance companies. Respondents were senior underwriting managers, branch managers and in their absence, business development managers. The findings are presented in percentages, mean, standard deviations, graphs and narrations.

4.2.1 Response rate

A total of 36 questionnaires were issued to the respondents. The completed questionnaires were edited for completeness and consistency. All the thirty six (36) questionnaires that were administered were returned; representing a 100% response rate from the respondents.

4.2.2 Demographic Characteristics of the Respondents

The establishment of demographic data of the respondents was guided by the following items; name and company, designation of the respondents and the period served in the insurance industry. The respondents varied in the designation they held; most of them were at middle level management at 91.7% while those at top management represented 8.3%.

Those in top management have served the industry between 16 – 20 years while most of the middle level managers have served in the industry between 5 -15 years. There were no respondents serving in the lower level management.

4.3 Factors Affecting the Development of Marine Cargo Insurance in Kenya

The study sought to find out from the respondents the factors affecting the development of marine cargo insurance in Kenya. The respondents' responses on seventeen (17) factors availed to them were subjected to analysis using both descriptive and content analysis. The responses were subjected to ranking and a Likert point of scale was used, with the strongest factor scoring five points, whereas the least scored one point. The mean and standard deviation were then computed as shown in Table 4.1.

Table 4.1: Factors Affecting the Development of Marine Cargo Insurance in Kenya

Factors	Mean	Standard Deviation
Perceived high cost of marine cargo insurance premiums	3.22	1.124
Procurement of marine cargo insurance from the overseas	3.83	1.254
Excessive fragmentation of marine insurance markets	2.83	1.298
Lack of reinsurance capacity	2.69	1.369
Shortage of skilled and qualified manpower in marine	3.28	1.210
Obstacles resulting from international conventions	2.69	1.348
Lack of awareness of the benefits of marine cargo insurance	3.64	1.125
Lack of capacity by insurers	2.94	1.433
Perceived low cost of marine cargo insurance premiums from abroad	3.08	1.228
Legal enforcement gaps in Kenya	3.11	1.304
Lack of collaboration and co-operation gaps between key stakeholders in the Maritime Sector	3.39	1.076
Lack of innovative and flexible products to cater for the maritime needs	3.28	1.256
Negative perception of marine insurance by importers and exporters	2.97	1.230
Inadequate distribution channels particularly for marine insurance	2.61	1.050
Shortage of scholars with appropriate experience and skills	2.17	1.363
Perceived safety of water transport by maritime merchants	2.83	1.207
Lack of comprehensive and effective regulatory regime in Kenya	3.03	1.207

Source: Author (October 2015)

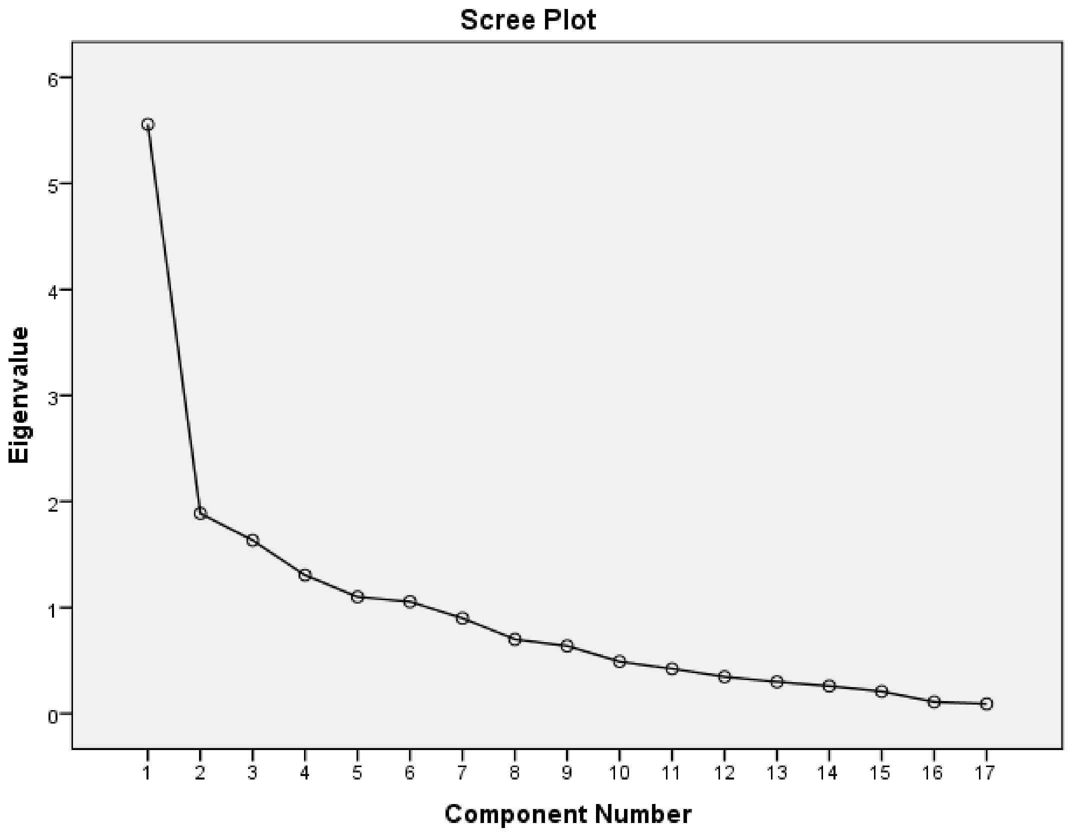
Among the factors which negatively influenced the development of Marine Cargo Insurance in Kenya, the factor that was found to have the highest mean score was; procurement of marine cargo insurance from the overseas markets with a mean of 3.83 which was followed by lack of awareness of the benefits of marine cargo insurance followed with a mean score of 3.64.

The third ranked factor was lack of collaboration and co-operation gaps between key stakeholders in the maritime sector which had a mean of 3.39.The least ranked factors were lack of reinsurance capacity and obstacles resulting from some international conventions such as WTO which had a mean score of 2.69, followed by inadequate distribution channels particularly for marine insurance with a mean 2.61 and lastly shortage of marine insurance scholars with appropriate experience and skills with a mean of 2.17. From the above descriptive analysis, procurement of marine cargo insurance from the overseas markets and the lack of awareness of the benefits of marine cargo insurance are the two greatest factors which impend the development of marine cargo insurance in Kenya.

Further analysis was conducted to classify the seventeen (17) factors affecting the Development of Marine Cargo Insurance in Kenya into respective classes.

Table 4.2: KMO and Bartlett's Test for Factors Affecting Development of Marine Cargo

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.668
Bartlett's Test of Sphericity	Approx. Chi-Square	257.255
	Df	136
	Sig.	.000



Source: Author (October 2015)

The Bartlett's test of sphericity performed on these factors indicates that they are adequate for analysis. These factors had a KMO (Kaiser-Meyer-Olkin Measure of Sampling Adequacy) of 0.668 indicating that they were reliable for analysis, as shown in the table 4.2. Normally a KMO value of 0.5 and above is considered good for analysis. Four broad categories of measures were identified after twenty five (25) iterations, with a total component loading of 12.536. Table 4.3 shows the classes and the respective variables in each class.

Table 4.3: Classification of Factors Affecting the Development of Marine Cargo Insurance in Kenya

Factors	Factor loadings	Sum of factor loadings
Class One: Factors Affecting the Development to a Very Great Extent		
Perceived high cost of marine cargo insurance premiums in Kenya	.862	3.244
Procurement of marine cargo insurance from the overseas markets	.682	
Lack of awareness of the benefits of marine cargo insurance	.809	
Shortage of skilled and qualified manpower in marine insurance	.891	
Class Two : Factors Affecting the Development to a Little Extent		
Obstacles resulting from some international conventions such as WTO	.678	
Lack of reinsurance capacity	.465	2.765
Lack of capacity by insurers	.823	
Perceived low cost of marine cargo insurance premiums abroad	.799	
Class Three : Factors Affecting the Development to a Moderate Extent		
Legal enforcement gaps in Kenya	.642	
Lack of collaboration and co-operation gaps between key stakeholders in the Maritime Sector	.744	2.827
Lack of innovative and flexible products to cater for the maritime needs	.762	
Negative perception of marine insurance by importers and exporters	.679	
Class Four : Factors Affecting the Development to a Great Extent		
Inadequate distribution channels particularly for marine insurance	.714	
Shortage of Marine insurance scholars with appropriate experience and skills	.741	2.973
Perceived safety of water transport amongst the maritime merchants	.755	
Lack of comprehensive and effective regulatory regime in Kenya	.764	

Source: Author (October 2015)

The analysis indicates that, Class one with perceived high cost of marine cargo insurance premiums in Kenya, procurement of marine cargo insurance from the overseas markets, lack of awareness of the benefits of marine cargo insurance, shortage of skilled and qualified manpower in marine insurance had the highest factor loading 3.244. This was followed by Class four which had a factor loading of 2.973. The factors with the least loadings were Class Two with a loading of 2.765. From the above analysis of the grouped related factors of 4, class one factors were shown to have a significantly great negative influence on the development of marine cargo insurance in Kenya.

From both the descriptive and content analysis, it is evident from the study that procurement of marine cargo insurance from the overseas markets and lack of awareness of the benefits of marine cargo insurance are the two major impediments to the development of marine cargo insurance in Kenya. These are closely followed by shortage of skilled and qualified manpower in marine insurance and perceived high cost of marine cargo insurance premiums in Kenya.

4.4 Challenges in the Uptake of Marine Cargo Insurance in Kenya.

The study sought to find out from the respondents the challenges in the uptake of marine cargo insurance. The respondents' responses on seventeen (17) challenges availed to them were subjected to analysis using both descriptive and content analysis. The responses were subjected to ranking and a Likert point of scale was used, with the strongest factor scoring five points, whereas the least scored one point. The mean and standard deviation were then computed as shown in Table 4.4.

Table 4.4: Challenges in the uptake Marine Cargo Insurance in Kenya

Challenges	**Mean**	**Standard Deviation**
There is negative perception of marine cargo insurance by the importance and exporters in Kenya	2.89	1.369
The importers and exporters lack of knowledge and awareness of the benefits of marine cargo insurance	3.42	1.052
In Kenya there is lack of trust in insurance companies because of non-payment of claims or lengthy	3.25	1.317
There is credibility crises in the insurance industry resulting from poor inefficient claims settlement processes and mis-selling of insurance products	3.33	1.146
There is low engagement and low awareness of insurance products such that the informal market is largely oblivious of marine insurance and regards insurance as the preserve of the rich	3.67	1.095
The insurance industry is poor in raising awareness levels in the marine insurance products	3.61	0.934
Impediments from some international conventions such as WTO which allows business people a freedom to choose where to place their insurance covers globally insurance	3.42	1.105
In Kenya there are few market led initiatives that seek to develop the marine insurance sub-sector	3.31	1.037
There is lack of innovative and flexible marine insurance products to cater for the needs of importers and exporters in Kenya	3.06	1.145
The insurance in Kenya suffer from an acute shortage of skilled and qualified man-power in insurance	3.00	1.146
In Kenya importers and exporters procure of marine cargo insurance from the overseas insurance markets	3.72	1.162
There is a perception that marine cargo insurance is costly when procured from the Kenyan Insurance market compared to the International Market	3.25	1.296
There is a high level of ignorance and lack of awareness of marine cargo insurance products	3.64	1.073
In Kenya there is lack of collaboration and cooperation between various key stakeholders in the maritime sector as well as the various government agencies in the sector	3.36	1.046
The marine insurance market is characterized by lack of reinsurance capacity and excessive fragmentation	2.64	1.046
There is a perceived safety of water transport amongst the maritime traders	2.61	1.128
The comprehensiveness and effectiveness of regulatory regime in Kenya is inadequate and hence inhibits the growth of marine insurance	3.11	1.166

Source:Author(October2015)

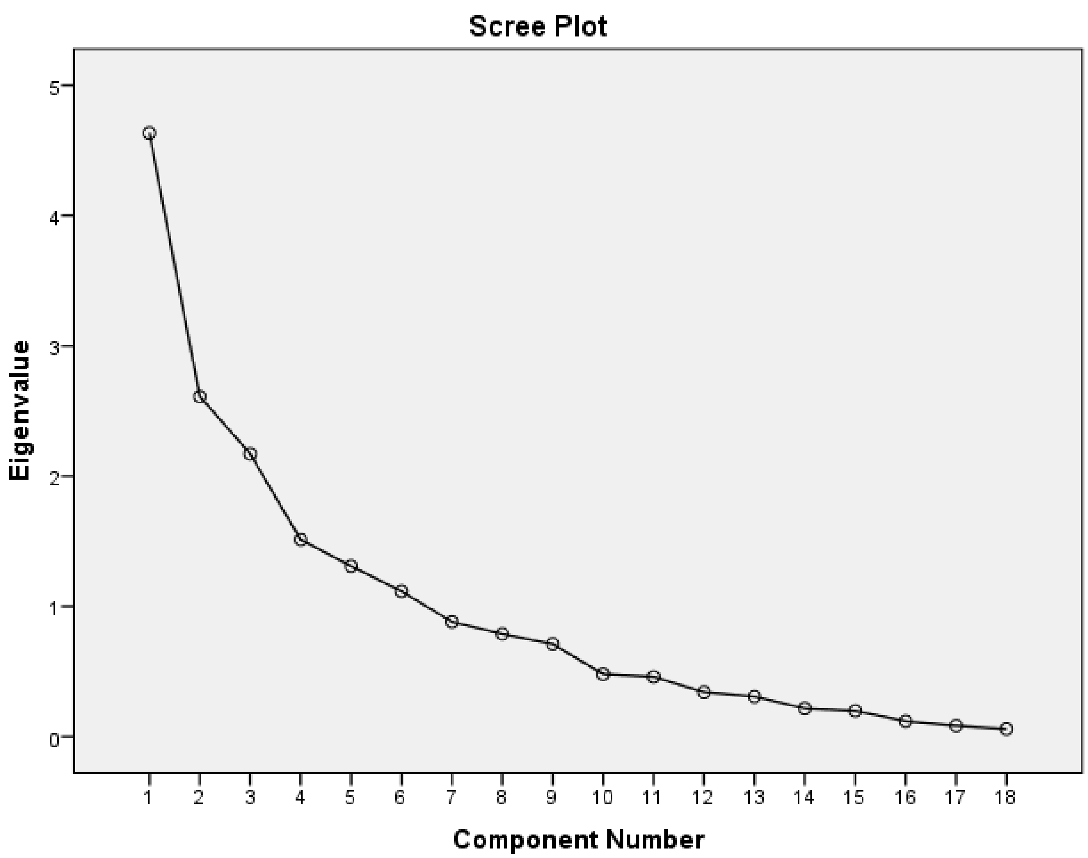
Among the challenges in the uptake of marine cargo insurance in Kenya, the challenge that was found to have the highest mean score was; importers and exporters procure of marine cargo insurance from the overseas insurance markets with a mean of 3.72. This was followed closely by low engagement and low awareness of insurance products such that the informal market is largely oblivious of marine insurance and regards insurance as the preserve of the rich follows with a mean score of 3.67.The next ranked factor was; there is a high level of ignorance and lack of awareness of marine cargo insurance products which had a mean of 3.64.The least ranked factors were; there is negative perception of marine cargo insurance by the importers and exporters in Kenya that had a mean score of 2.89, followed by; marine insurance market is characterized by lack of reinsurance capacity and excessive fragmentation of marine insurance markets with a mean 2.64 and lastly, the least ranked factor was; there is a perceived safety of water transport amongst the maritime traders with a mean of 2.61.

The findings presented show the respondents were of the opinion that the two most significant challenges in the uptake of marine cargo insurance are procurement of marine cargo insurance from the overseas insurance markets by Kenyan importers and exporters and low engagement as well as low awareness of insurance products which implies lack of awareness of the benefits of insurance in general and by extension marine cargo insurance.

Further analysis was conducted to classify the seventeen (17) challenges in the uptake of marine cargo insurance in Kenya into respective classes.

Table 4.5: KMO and Bartlett's Test for Classification of Challenges in the Uptake Marine Cargo Insurance in Kenya

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.525
Bartlett's Test of Sphericity	Approx. Chi-Square	279.621
	Df	136
	Sig.	.000



Source: Author (2015)

The Bartlett's test of sphericity performed on these factors indicates that they are adequate for analysis. These factors had a KMO (Kaiser-Meyer-Olk in Measure of Sampling Adequacy) of 0.525 indicating that they were reliable for analysis, as shown in table 4.5. Four broad categories of measures were identified after twenty five (25) iterations, with a total component loading of 12.832. Table 4.6 shows the classes and the respective variables in each class.

Table 4.6: Classification of Challenges in the Uptake of Marine Cargo Insurance in Kenya

Challenges	Factor loadings	Sum of factor loadings
Class One: Very Great Extent Challenges in the Uptake		
There is negative perception of marine cargo insurance by the importance and exporters in Kenya	.830	
The importers and exporters lack of knowledge and awareness of the benefits of marine cargo insurance	.839	
In Kenya there is lack of trust in insurance companies because of non-payment of claims or lengthy	.877	
There is credibility crises in the insurance industry resulting from poor inefficient claims settlement processes	.807	4.134
In Kenya importers and exporters procure of marine cargo insurance from the overseas insurance markets	.781	
Class Two: Great Extent Challenges in the Uptake		
The insurance industry is poor in raising awareness levels in the marine insurance products	.639	3.092
International conventions which allow freedom to choose where to place their insurance covers globally	.906	
In Kenya there are few market led initiatives that seek to develop the marine insurance sub-sector	.775	
There is lack of innovative and flexible marine insurance products to cater for the needs of customers	.771	
Class Three : Moderate Extent Challenges in the Uptake		
The insurance in Kenya suffer from an acute shortage of skilled and qualified man-power in insurance	.741	
There is a perceived safety of water transport amongst the maritime traders	.729	
There is a perception that marine cargo insurance is costly when procured from the Kenyan Insurance market	.764	2.950
There is a high level of ignorance and lack of awareness of marine cargo insurance products	.724	
Class Four: Low Extent Challenges in the Uptake		2.630
In Kenya there is lack of collaboration and cooperation between various key stakeholders	.778	
Lack of reinsurance capacity and excessive fragmentation of marine insurance markets	.551	
There is low engagement and low awareness of insurance products such that the informal market is largely oblivious of marine insurance and regards insurance as the preserve of the rich	.509	
The comprehensiveness and effectiveness of regulatory regime in Kenya is inadequate	.801	

Source: Author (October 2015)

The analysis indicates that, Class one challenges that is; there is negative perception of marine cargo insurance by the importers and exporters in Kenya, the importers and exporters lack of knowledge and awareness of the benefits of marine cargo insurance, in Kenya importers and exporters procure insurance for marine cargo overseas, there is lack of trust in insurance companies because of non-payment of claims or lengthy claims procedures, there is credibility crises in the insurance industry resulting from poor inefficient claims settlement processes and mis-selling of insurance products had the highest factor loading of 4.134, this was followed by class two with a factor loading of 3.092 thus: the insurance industry is poor in raising awareness levels in marine insurance products, impediments from some international conventions such as WTO which allows business people a freedom to choose where to place their insurance covers globally, few market led initiatives that seek to develop the marine insurance sub-sector and lack of innovative and flexible marine insurance products to cater for the needs of importers and exporters in Kenya.

In view of both descriptive and content analysis of the challenges in the uptake of marine cargo insurance in Kenya, the findings presented show the respondents were of the opinion that the two most significant challenges in the uptake of marine cargo insurance are procurement of marine cargo insurance from the overseas insurance markets by Kenyan importers and exporters and lack of knowledge and awareness of the benefits of marine cargo insurance. The content analysis further shows that these are followed closely by lack of trust in insurance companies because of non-payment of claims or lengthy claims procedures and credibility crises in the insurance industry resulting from poor inefficient claims settlement processes as well as mis-selling of insurance products.

4.5 Role of the regulator in helping the growth and development of Marine Cargo Insurance

Most respondents were of the opinion that IRA has a vital role to play in encouraging the uptake of marine cargo insurance in Kenya. In their view, IRA has done commendable efforts in intensifying supervision and development of the insurance industry in general but has performed dismally in the development of marine cargo insurance sub-sector. The respondents in this study suggested the following measures that IRA can undertake to develop and grow marine cargo insurance in Kenya;

Table 4.6: Role of IRA

Role	Percentage
Come up with marine cargo insurance training programmes country wide in collaboration with the College of Insurance in order to bring awareness and knowledge of marine cargo insurance	91%
Educate the importers and exporters on benefits of marine cargo insurance particularly the benefits of insuring with local insurers,	90%
Ensure that there are qualified and competent staffs in marine cargo insurance in all marine insurance companies.	85%
Ensure insurers employ skilled and trained personnel in marine cargo underwriting,	80%
Ensure relevant legislation governing importation and exportation of cargo are observed by all maritime stakeholders,	79%
Ensuring there are adequate reinsurance arrangements for marine cargo insurance	76%
Liaising with AKI as well as other relevant stakeholders in lobbing the Government to introduce insurance in the education curriculum from primary level.	67%

Source: Author (October 2015)

Other respondents suggested that IRA should liaise with Government enforcement agencies such as KRA in making sure that maritime business persons comply with Section 20 (1) of the Insurance Act Cap 487 which prohibits placing of Kenyan insurance business other than reinsurance business with an insurer not registered under the Act without prior approval by the Commissioner of Insurance. The suggestions on how this can be achieved were that imports should be imported based on FOB incoterms while exports should be exported based on CIF incoterms. The effect of this is that all imports and exports will be underwritten by local insurers and hence positive impact to the uptake of marine cargo insurance in Kenya.

4.6 Dealing with Challenges

The respondents suggested the following measures to be used in countering the challenges in the uptake of marine cargo insurance in Kenya.

Table 4.7 Dealing with challenges in the Uptake of Marine Cargo Insurance

Challenge	**Percentage**
Educate and bring awareness to the maritime stakeholders on the benefits of marine cargo insurance	92%
IRA and other relevant government agencies such as KRA to introduce penalties for non compliance to Section 20(1) of the Insurance Act	90%
Insurers should come up with innovative and flexible products to cater for various maritime needs	87%
Creating public awareness through countrywide workshops, seminars and trainings in marine cargo insurance.	83%
Legislation to insure all imports and exports locally	81%
Develop mechanisms to train industry players in underwriting	78%
Encourage industry players to develop and train their employees on prudent underwriting of marine cargo insurance business	74%

Source: Author (October 2015)

Other suggestions included; Government to give incentives to importers and exporters so as to encourage them procure marine cargo insurance from the local insurance market in order to boost marine cargo insurance in Kenya, vigorous marketing of insurance products by the insurance companies, ease transport logistics, reduce cost of credit, value addition to our exports to be competitive in the world/global market, emphasis on risk management associated with the increase in infrastructure development and no unnecessary delay in claim settlement by the insurers.

4.7 Discussion of Results

The study identified the following seven main challenges affecting the uptake of marine cargo insurance in Kenya; procurement of marine cargo insurance from the overseas markets, lack of awareness of the benefits of marine cargo insurance by Kenyan importers and exporters, shortage of skilled and qualified manpower in marine insurance and perceived high cost of marine cargo insurance premiums in Kenya, negative perception of marine cargo insurance by the importers and exporters, lack of trust in the insurance companies because of non-payment of claims or lengthy claim processes, credibility crises in the insurance industry resulting from poor inefficient claims settlement processes as well as mis-selling of insurance products, perception that marine insurance bought overseas is less expensive.

Other significant challenges identified included lack of collaboration and co-operation between various key stakeholders in the maritime sector and various government agencies in the sector, poor marketing strategies for marine cargo insurance adopted by insurance companies, perception of insurance as being a preserve for the rich and lack of comprehensiveness and effectiveness of regulatory regime in Kenya. The implication of the identified challenges is low uptake of marine cargo insurance in Kenya and hence impediment of the growth of the insurance sector as a whole. This in turn impacts negatively on the overall contribution of the insurance sector to the country’s GDP.

Most of the above findings conform to various studies carried out on challenges in penetration of marine insurance in other parts of the world. In particular, challenges such as lack of awareness of marine insurance and its benefits among maritime business people as well as lack of experts in marine insurance have been underscored. Other challenges including credibility and poor image of the insurance industry, lack of innovation on product development by the marine underwriters and lack of collaboration between various stakeholders in the maritime sector as well as various government agencies in the sector have also been underscored by previous studies. (GCC, 2013, Willis, 2012).

CHAPTER FIVE

SUMMARY, CONLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents and discusses the main findings, draw conclusions based on the findings, offers recommendations and suggestions for further research.

5.2 Summary of Findings

The objectives of the study were; to determine the challenges in the uptake of marine cargo insurance in Kenya and to determine the possible solutions to the challenges in the uptake of marine cargo insurance. Overall, the rate of adoption of insurance products for both general insurance and life insurance in Kenya though growing remains very low as compared to the developed economies. In particular, the gross written premium by Kenyan underwriters for marine insurance has not only remained dismal but has recorded an alarming decline over the last five years compared to other classes of non-life insurance. It is worth noting that the percentage growth of marine insurance dropped to a dismal 9.84% in 2012/2013 from an impressive growth of 23.57% in 2009/2010 despite the high and steady growth of imports and exports over the same period.

The study indicates that low penetration of marine cargo insurance in Kenya is as a result of low level of awareness in the population, perceived high cost of the marine cargo insurance from the local market, the general negative perception of insurance by the public and procurement of marine cargo insurance from the oversees. According to the study, the regulator’s role in the uptake of marine cargo insurance includes collaboration with all stakeholders in order to bring awareness and equip the public with knowledge of marine cargo insurance, educate the importers and exporters on benefits of marine cargo insurance particularly the benefits of insuring with local insurers, ensuring that there are qualified and competent personnel in underwriting cargo insurance in all insurance companies and liaising with the relevant Government agencies such as KMA in grafting legislations to compel importers and exporters to procure marine cargo insurance from the local insurance market.

5.3 Conclusions

The study concludes that the following are the greatest challenges to the growth of marine cargo insurance in Kenya; perceived high cost of marine cargo insurance premiums in Kenya, procurement of marine cargo insurance from the overseas markets, negative perception of marine cargo insurance, lack of awareness of the benefits of marine cargo insurance, lack of trust in local insurance companies as well as credibility crises in the insurance industry, perception that marine insurance bought overseas is less expensive, low awareness of insurance products such that the informal market is largely oblivious of marine cargo insurance, lack of comprehensive and effective regulatory regime, shortage of skilled, experienced manpower in marine insurance and lack of collaboration between the various key stakeholders in the maritime sector and government agencies in the maritime sector.

The role of the Insurance Regulatory Authority in enabling uptake of marine cargo insurance is critical particularly in collaboration with all the relevant Government agencies in ensuring compliance with Section 20 (1) of the Insurance Act Cap 487. There is need for the regulator, AKI and other stakeholders in the sector to conduct an intensive awareness campaigns through the media and other ways so as to raise the general the levels of awareness on the benefits of procuring marine cargo insurance from the local insurance industry.

AKI as the body which brings together insurers transacting insurance business in Kenya should find out why their members shy away from underwriting marine cargo insurance in Kenya and graft practical measures of capturing the untapped premiums from the maritime sector. More importantly, as the body whose objectives include promotion of the advancement of insurance business in Kenya, they should spear head collaboration with other stakeholders in the maritime sector such as KMA, KIFWA and the Shippers Council in grafting measures of promoting the uptake of marine cargo insurance. Such efforts by AKI will positively impact the development of the marine cargo insurance sub-sector and thus the insurance sector as a whole.

Once the above is done, the study concludes that the uptake of marine cargo insurance will be greatly enhanced and hence the insurance penetration in Kenya will improve to the levels of the emerging economies of the world and contribute to financial and economic development. Additionally, this will go a long way in alleviating the problem of low insurance penetration in Kenya.

5.4 Recommendations of the study

Based on the findings and conclusions of the study, the study recommends that in order to overcome the challenges in the uptake of marine cargo insurance, there is need for the Insurance Regulatory Authority to play a central role in ensuring consumer protection so that the negative perception amongst the insuring maritime traders is corrected particularly with regard to nonpayment of claims as well as lengthy claims processes. IRA need to collaborate with the relevant stakeholders in the maritime sector such as KMA, KIFWA, KGCHA, Kenya Shippers Council, KRA and AKI by way of tailor made trainings, workshops and seminars so as to sensitize and educate the maritime business people on the benefits of marine cargo insurance, the benefits of procuring marine cargo insurance locally and how marine cargo insurance meets all their maritime economic needs.

Moreover, as the Government agency that is mandated by law to develop the insurance industry, IRA need to ensure compliance with Section 20 (1) of the Insurance Act Cap 487 by collaborating with other agencies in ensuring imports are imported on FOB and exports are exported on CIF incoterms.AKI and other stakeholders in the insurance industry such as AIBK need to be innovative and graft tailor make marine cargo insurance products which meets the specific special needs of the maritime businesses sub-sector in Kenya.

In collaboration with other sector holders, AKI should organize workshops to sensitize the importers and exporters on cargo insurance and hence remove the perception that marine cargo insurance premiums are high in the locally market.Additionally; they should ensure their members as well as insurance agents adopt sound insurance business practices so that the industry regains the lost public confidence in insurance. IRA on their part need to consider possibilities of giving tax incentives to maritime traders who procure marine cargo insurance from the local insurance market in order to motivate business people to procure marine cargo insurance locally.

5.5 Implications for Policy and Practice

Currently, the insurance sector contributes very little to the GDP yet the potential in various sub-sectors of insurance such as the marine cargo insurance is unexploited. This potential need to be harnessed to create wealth and hence improve the living standards for the people of Kenya and aid the economic pillar of development under vision 2030.It is recommended that insurance should be included in the national education curriculum as a subject from primary school level so that learners at their early age are exposed to the important concepts of risk management by way of the insurance device which is very crucial in national development.

The Government through its various compliance agencies such as IRA, KMA and KRA need to consider how Section 20(1) of the Insurance Act Cap 487 can be implemented effectively with respect to procurement of marine cargo insurance from the international insurance markets. Additionally, the relevant government agencies need to scrutinize various international conventions such as the WTO on trade and graft legislations to counter those that are an impediment to the development of our marine insurance sub sector. Moreover, the Government can consider giving premium relief to maritime business people who procure marine cargo insurance from the local insurance market. This will greatly improve the uptake of marine cargo insurance and hence the insurance sector in general which has been identified in the vision 2013 as critical in the country's transformation under the economic pillar.

5.6 Limitations of the Study

The study focused on insurance companies who are the sellers or suppliers of marine cargo insurance products. The study therefore left out the intermediaries who are the distributors of the insurance products who would have some significant input given the feedback they get from the buyers of insurance. Additionally, the buyers of marine cargo insurance particularly the importers and exporters and the general public were also omitted. These groups in particular would have given useful insights as to what influences them to procure marine cargo insurance from the overseas markets or what prevents them from buying marine cargo insurance at all. Hence, there is a possibility that some challenges in the uptake of marine cargo insurance which could have been brought out by these groups who were left out.

5.7 Suggestion for further study

This study concentrated on insurance companies only. Other studies should be undertaken where the buyers of marine cargo insurance particularly the importers and exporters are interviewed including the general insuring public. Additionally, the intermediaries in the insurance sector - insurance brokers and insurance agents should be interviewed. Such studies will ensure that all the stakeholders' contributions are taken into consideration in the attempt to deal with the challenges in the uptake of marine cargo insurance and alleviate the problem of low insurance penetration in Kenya.

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APPENDICES

APPENDIX 1: Questionnaire for Insurance Companies

This questionnaire aims at acquiring information on the challenges in the uptake of marine cargo insurance in Kenya? Please respond to all items.

SECTION A: PERSONAL INFORMATION

1**.** Name (optional) …………………………………………………………..........…

2**.** Company (optional)…………….………………………………………………..

3**.** What is your Designation?

Top management ( ) Middle level management ( ) Lower level management ( )

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

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

SECTION B: CHALLENGES IN THE PENETRATION OF MARINE CARGO INSURANCE

1**.** How has marine cargo insurance performed compared to other classes of general insurance in your organization?

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2. Which of the following factors affect the development of marine cargo insurance in Kenya? Use a 5 point scale where:-

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

Factors	1	2	3	4	5
Perceived high cost of marine cargo insurance premiums in Kenya					
Procurement of marine cargo insurance from the overseas markets					
Excessive fragmentation of marine insurance markets					
Lack of reinsurance capacity					
Shortage of skilled and qualified man-power in marine insurance					
Obstacles resulting from some international conventions such as WTO					
Lack of awareness of the benefits of marine cargo insurance					
Lack of capacity by insurers					
Perceived low cost of marine cargo insurance premiums abroad					
Legal enforcement gaps in Kenya					
Lack of collaboration and cooperation gabs between various key stakeholders in the maritime sector					
Lack of innovative and flexible products to cater for the maritime needs					
Negative perception of marine insurance by importers and exporters					
Inadequate distribution channels particularly for marine insurance					
Shortage of marine insurance scholars with appropriate experience and skills					
Perceived safety of water transport amongst the maritime merchants					
Lack of comprehensive and effective regulatory regime in Kenya					

3. Kindly indicate the extent the statements provided in the table below apply to the state of marine cargo insurance in Kenya. Use the following rating:

[1]Very low extent [2] Low extent [3] Moderate extent [4] Great extent

[5]Very great extent

Challenges	1	2	3	4	5
There is negative perception of marine cargo insurance by the importers and exporters in Kenya					
The importers and exporters lack of knowledge and awareness of the benefits of marine cargo insurance					
In Kenya, there is lack of trust in insurance companies because of non-payment of claims or lengthy and tiresome claims processes.					
There is credibility crises in the insurance industry resulting from poor and inefficient claims settlement processes and mis-selling of insurance products					
There is low engagement and low awareness of insurance products such that the informal market is largely oblivious of marine insurance and regards insurance as a preserve of the rich.					
The insurance industry is poor in raising awareness levels in the marine insurance products					
Impediments from some international conventions such as WTO which					

allows business people a freedom to choose where to place their insurance covers globally					
In Kenya, there are few market-led initiatives that seek to develop the marine insurance sub-sector					
There is lack of innovative and flexible marine insurance products to cater for the needs of importers and exporters in Kenya					
The insurance in Kenya suffer from an acute shortage of skilled and qualified man-power in marine insurance					
In Kenya, importers and exporters procure of marine cargo insurance from the overseas insurance markets					
There is a perception that marine cargo insurance is costly when procured from the Kenyan insurance market compared to the international market.					
There is a high level of ignorance and lack of awareness of marine cargo insurance products					
In Kenya, there is lack of collaboration and cooperation between various key stakeholders in the maritime sector as well as the various government agencies in the sector.					
The marine insurance market is characterized by lack of reinsurance capacity and excessive fragmentation of marine insurance markets					
There is a perceived safety of water transport amongst the maritime traders					
The comprehensiveness and effectiveness of regulatory regime in Kenya is inadequate and hence inhibits the growth of marine insurance					

4**.** Indicate the two most serious challenges in the development of marine cargo insurance in Kenya.

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

No ( ) Yes ( )

a) Explain your answer as given above.

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

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SECTION C: DEALING WITH CHALLENGES

1. Of the challenges that have affected the uptake of marine cargo insurance in Kenya, suggest at least five ways on how the country can well counter the challenges.

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Thanks for your contribution in the survey

Appendix 2: Letter to Respondents

Joel Cheruiyot Rono
P.O Box 40007-80100
Nairobi
Tel 0720 901 007

June, 2015

Dear Respondent,

<u>Re: Request for Participation in Research Work</u>

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

I am currently conducting a research on challenges in the uptake of marine cargo insurance in Kenya. The information will be treated with utmost confidentiality and will only be used for academic research purpose. Should you require the findings of this research, I will not hesitate to provide the information to you. Your participation is highly appreciated.

Yours Faithfully
Joel C. Rono
MBA Student (D61/63719/10)