THE EFFECTS OF PRICE REGULATION OF MOTOR INSURANCE ON ITS SALES VOLUMES IN KENYA

SAMSON KABUGI NJAU MWERU

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DECLARATION

I declare that this is my original work and has not been presented in any other institution or University for the award of a degree or any other qualification.

Signature:…………………………………………Date………………………………

Samson KabugiNjau Mweru

D61/75854/2012

This project has been submitted for examination with my approval and advice as the university supervisor

Signature:…………………………………………Date:…………………………..…

MS. Catherine Ngahu

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DEDICATION

This work is dedicated to my colleagues in the insurance industry who do great work of securing the wealth of nations; to my family; Spouse Mary Kabugi and our children Teddy and Tobby for their love and support even when I had to be absent from home to attend to this course; My lecturers and fellow students for making it interesting to be in school.

ABSTRACT

The insurance industry in Kenya is highly regulated by the government. This is because of the nature of business transacted and the fact that being a service industry, what is sold is a promise for future compensation in case of a loss occurring. This banks on the uncertainities of risk as well as the extent of financial losses experienced by the victim should an insured peril operate. This Supervision and regulation is carried out by the Insurance Regulatory Authority on behalf of the government. The Insurance Regulatory Authority is mandated to ensure that the public has confidence in the various insurance companies as well as that the industry operates in a profitable manner in order to avoid collapse of any company due to heavy losses. The industry has been making huge losses in the motor insurance and in an endeavor to manage the losses and save the companies from imminent collapse, the regulator issued pricing guidelines on this class and set out serious penalties for those who failed to implement the guidelines. The effect of this directive was felt across the industry, and this study was carried out to establish the actual effects on the sales volumes as well as the shift in market positioning strategies adopted by the various stakeholders.The study adopted a descriptive research design. The study population was all the 35 insurance companies that deal in motor insurance and were therefore affected by this directive. Data was collected through questionnaires that were emailed to the various respondents and followed through phone calls. The data collected was then analysed using statistical descriptive tools and results presented on tables in forms of frequencies, mean, standard deviation and percentages. From the research findings, the companies demonstrated having various combinations of marketing positioning strategies applied at different extents. The sales volumes had dropped significantly across the market and there was great discomfort among the customers who had to pay more to insure their motor vehicles. It was also found that there was an overwhelming support of this directive by the insurers and most of them confirmed having implemented the same. However, there was suspicion amongst peers and a general feel that the regulator was unable to enforce the directive. Further, many executives expressed their feeling that the directive may not hold into the future. The study recommended that all industry stakeholders should work together to ensure a stable and economically viable industry that is able to meet its financial obligations, andthat the Insurance Regulatory Authority should find a mechanism to enforce its directives.

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LIST OF ABBREVIATIONS

AIK	Association of Kenya Insurers
GDP	Gross Domestic Product
IRA	Insurance Regulatory Authority
KNBS	Kenya National Bureau of Statistics
NCD	No Claim Discount
SPSS	Statistical Package for Social Sciences

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The growth rate of the global economy dropped from 3.1% in 2012 to 3.0% in 2013 due to rise in oil prices in the international markets, the ongoing economic turmoil in the Euro zone, slowed growth in the emerging markets, etc. (Economic Survey 2014). The lower performance was observed across most regions and major economic groups. However, growth in Sub-Saharan Africa and the East African Community remained relatively robust with the real GDP estimated to have expanded by 5.0% and 6.1% respectively in 2013. This was due to increased trade and investment with emerging markets economies.

Locally the economic activity showed improvement despite a myriad of challenges that included turbulent global economy, delayed long rains, comparably higher interest rates, risk aversion in the first quarter due to general elections, reduced spending by government during the transition period and insecurity concerns. The real GDP expanded by 4.7% in 2013 as compared to a growth of 4.6% in 2012. Major supporters of this growth were a stable macroeconomic environment for the better part of the year, low and stable inflation, infrastructural development and the construction sector.

In 2014, the microeconomic stability is expected to continue supported by the operationalization of the county development budgets, increase in private consumption due to stable interest rates, discoveries of natural gas and petroleum oil, investments in the construction industry and financial sector innovations.

The insurance Sector plays a major role in the Kenyan economy, commanding a turnover of KShs.110 Billion in the year 2012, and growing at an average rate of 22% Per Annum. This is a major contribution to the GDP and more focus to its growth and support of the other sectors of the economy cannot be over-emphasized. Insurance penetration was at 3.06%, the fourth highest in Africa, after South Africa (14.16%), Namibia (8%) and Mauritius (5.94%) (IRA 2013). Though highly ranking in comparison with the rest of African countries, this low penetration rate prevails despite efforts by industry players to innovate products cutting across the various economic and social sectors.

A lot of regulation happens in this sector because of its nature as a service rather than goods industry. Huge sums of money change hands in return for a promise on future uncertainties. A lot of risks would come out of such operations including money laundering among other economic crimes. The government of Kenya, through the Insurance Regulatory Authority, oversees the operations in this industry with an aim to ensure that the industry players embrace the highest level of professionalism and the customers are well protected.

1.1.1 The Concept of Pricing and Price Regulation

Pricing is one of the four pillars of marketing, the others being Product, Place and Promotion. Among the four, Pricing stands out more strongly since it signifies the amount of money which the customer has to pay to obtain the product (Phil Harris 2009). Buyers interest in price stems from their expectation about the usefulness of a product or the satisfaction they may derive from it (Pride, Ferrell, 2010).

Price is a major factor in market positioning. Positioning is the process by which a company establishes an image for its offers in the minds of the consumers relative to the image of competitors' offers (Kotler 2003). It involves building and occupying a mental niche in the consumers' mind in relation to identified competitors. It deals with successful creation of customer focused value proposition, with consumers typically choosing products that give them the greatest value.

Pricing decisions are often made according to the price and non-price competitive situation in a particular market. Price competition exists when consumers have difficulty distinguishing competitive offerings and marketers emphasise low prices (Pride, Ferrell 2010). The marketer will either match or beat competitors' prices in order to achieve his objective. Pricing objectives include profitability, sales volumes and market share.

Price Fixing is an agreement between participants on the same side of the market to buy or sell a product, service or commodity, only at a fixed price, or maintain the market conditions such that the price is maintained at a given level by controlling supply and demand. Price fixing requires a conspiracy between sellers or buyers, for the purpose of coordinating pricing for mutual benefit of the traders.

Generally the anti-trust laws require that each company establish prices and other terms on its own, without agreeing with the competitor. When consumers make choices about what products and services to buy, they expect the prices have been determined freely on the basis of supply and demand, not by an agreement among competitors. Otherwise, such an agreement is almost always illegal, whether prices are fixed at minimum or maximum, or within some range.

On the other hand, Price Controls or Regulations are government restrictions on the prices that can be charged for goods and services in a market. The intent behind implementing such controls stem from the desire to maintain affordability of such items. It is geared towards making sure that the consumer is not exploited by the supplier especially during shortages in supply.

1.1.2 Sales Volumes and Performance

Sales Volumes refers to the general lump sum of goods and services supplied during a given trade period at a given price. Many factors affecting the volume of sales include price, brand awareness, company image, people's needs and wants, awareness about the product, etc. Others include distribution, quality of the product and convenience both at acquisition, usage and disposal (Willey, 2003)

In the insurance industry, most products have been developed on the same tenets and have little differentiators even at value addition. All companies have almost similar distribution channels and product awareness have been over-exploited. Still companies must make sales for them to remain afloat.This has left marketers with only one major variable which they can use to attract more sales i.e. Price.

There exists an inverse relationship between price and sales volumes, holding all other factors constant. The higher the price the lower the volumes of sales, and the lower the price the higher the sales volumes. For insurance companies, competition around the pricing of their products is so severe that the lowest prices now seem to be the norm rather than a negotiated deal. They seem to be capitalizing on the notion that if they sell cheap, they sell more. When they sell more, the small margin that they put on the price is multiplied so many times more such that it ends up being a good profit in total.

Sales volumes in the industry translate into a proportionate market share which is the current measure of size of the different players in the market. It is noted that four companies control at least 60% of the market share meaning they carry that proportion of sales volumes in the year leaving another fourty four to share the balance. (IRA 2013)

1.1.3 The Insurance Industryin Kenya

Insurance is a promise of compensation for specific potential future losses in exchange for a periodic payment. Insurance is designed to protect the financial well-being of an individual, company or other entity in the case of unexpected loss. Some forms of insurance are required by law, while others are optional. Agreeing to the terms of an insurance policy creates a contract between the insured and the insurer. (InvestorWords.com)

The Insurance Industry in Kenya is governed by the Insurance Act Cap 487 and regulated by the Insurance Regulatory Authority (IRA), which was created by the Insurance (Amendment) Act of 2006 and came into operation on 1st May 2007. The IRA is mandated to regulate, supervise and develop the Insurance Industry(Insurance industry Report, 2012).It ensures that all players in the industry comply with the provisions of the Insurance Act.

Under the new legal dispensation the Authority is seeking to entrench Risk based supervision, as opposed to compliance based supervision, increased minimum capital requirements for insurers, introduction of cash and carry rules and the introduction of penalties on late settled claims (Insurance industry Report, IRA 2012).The Association of Kenya Insurers (AKI),on the other hand, is an association for the registered Insurance Companies that are licensed by IRA for operation in Kenya (www.akinsure.com). The insurance industry is divided into two lines of business; long term and short term business, also known as life and non-life business. Currently there are forty eight (48) registered Insurance companies, one hundred and seventy nine (179) Insurance brokers and over four thousand insurance agents. Other players include Reinsurers, Loss Adjusters, Risk Surveyors, Motor Assessors, Risk Managers, Investigators, Medical Insurance Providers and Claim Settling agents.

By the beginning of 2014, out of the forty eight registered insurance companies,twenty six (26)of them were General Companies, thirteen were life InsuranceCompanies while the remaining Nine (9)were Composite, underwriting both life and general businesses.

Competition in the Insurance Industry is quite fierce with the companies competing for a limited market, though every year, they manage to grow revenues in the industry by at least 20%. This competition has seen many firms employ various forms of competitive strategies that range from price cuts, incentives to customers and intermediaries as well as value adding benefits attached to the conventional products. Innovation has gone much higher with new products that have expanded the insurable interests to much higher ranges.

1.2 Research Problem

Throughout most of history, prices are set by buyers and sellers negotiating with each other. Sellers would ask for a higher price than they expected to receive and buyers would offer less than they expected to pay. Through bargaining, they would arrive at a mutually acceptable Price (Moutinho, 2008). Further, pricing decision must be based on objectives congruent with marketing and overall corporate objectives. The company first decides where it wants to position its market offering. The clearer a firm's objectives the easier it is to set the price. A company can pursue any of five major objectives through pricing: survival, maximum current profit, maximum market share, maximum market skimming, or product quality leadership (Kotler 2003).

In Insurance, companies are left to set up their pricesaccording to their analysis and perception of the risk exposure involved and their appetite for market share, sales volumes and profitability. They would then present them to the customers who may bargain depending on the circumstances of the business.However, these prices must be within the rates filed with IRA and must be acceptable to the reinsurers to whom a portion of that risk will be ceded.

Past studies by Mwangi J (2013) deduced that pricing strategy is widely used by insurance companies, an indication that the Industry is a price sensitive one, and despite the premium rates being regulated by the regulatory body (IRA), cases of price undercutting were common by companies trying to stand at an advantage over their competitors (Mwangi, J 2013)

Unfortunately the regulator has lately declared strict enforcement of price regulation, mostly affecting motor insurance. In a circular issued by AKI on 25th

February2014,all the insurance companies were required to strictly adhere to the IRA approved rates with effect from 1st May 2014. Those who would be caught flouting this directive would be met with severe consequences that would include cancellation of licenses and fines not exceeding Kshs.1 million. From AKI Report (2012) Motor insurance contributed the largest portion of premium written at 42% but also experienced the highest loss ratio of 56% of the motor premium written.The premium volumes are low despite the numerous policies underwritten in this class as well as the numerical count of the motor vehicles on Kenyan roads. The low premium is obviously as a result of low unit premiums and this has been brought about by price a reduction which is commonly known as price undercutting. According to Mwangi (2013), price is a major player in the positioning strategies adopted by companies in order to command the desired market share. So when price is removed as a variable, what is experienced by the companies in terms of sales volumes?

The other classes of insurance seem to have performed well except medical that has a claims ratio of 76%. All others play within the desired levels of 45% in aggregate across the industry. This explains why the regulator is particularly interested in the class of motor insurance since it is notorious with the claims experience.

Management reports of one of the insurance companies in the month of June 2014 showed reduced sales volumes for the month of May, immediately after the directive was implemented. The report attributed this to the strict adherence to IRA rates, which eliminated the pricing advantage. The report went further to recommend responsive strategies that could be used to counter the pricing headache.(Gateway, 2014). So how have other companies in the industry been affected by this directive? Have their sales volumes reduced or increased? What strategies have they adopted to enable them implement this directive and still maintain their market share? Is this directive likely to hold into the future?

The research will concentrate on finding out the immediate effects of the regulation on the sales volumes of motor insurance in various insurance companies and to predict the long term effect of the same as well as the marketing strategies that the various companies should adopt in response to this regulation.

1.3 Research Objectives

The Objectives of thestudyare;

i) To establish the how price regulation on motor insurance has affected its sales volumes in the insurance industry in Kenya.

ii) To establish the strategies the various companies are using to adapt to this regulation.

iii) To establish if this price regulation is sustainable into the future

1.4Value of the Study

The research findings are beneficial to the academicians and future scholars through addition to the existing body of knowledge on pricing strategies especially by the Insurancecompanies in Kenya. The research information can be useful as a basis for further research.

The Industry regulators, both IRA and AKI will benefit from this research through highlights on the effects of their regulatory decrees and how the industry players maneuver such decrees in order to survive. They will also identify the gaps in the implementation of such regulations, enabling them to come up with more firm regulatory frameworks. This would further help in the improvement of the Insurance Industry as a whole.

The Industry stakeholders in general, starting with themarketers, management and the shareholders will benefit from the insights on the significance of pricing relative to other pillars of the marketing mix, and the strategies that some of the market players have adopted, enabling them to re- evaluate and redefine their own strategies and adopt thosethat will help them improve their overall profitability. The customers and the general public willalso benefit from the findings of the researchto understandmore about the dynamics of the insurance industry, its performance, processes, stability and challenges facing it, and hopefully enable them support the industry to stand strong.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction.

This chapter examines the past literaterelevant to the study. It looks into previous works by authors, researchers, scholars and analysts. In particular, it will look into the theories of pricing and price regulation, the relationship between pricing and sales and finally other promotional pillars that support sales volumes.

2.2 Theoretical Foundations of the Study

This study is based on the theories of price and price regulation, and their relationships to sales volumes

2.2.1 Theory of Price

The theory of price says that the point at which the benefit gained for those who demand the entity meets the seller's marginal costs is the most optimal market price for the good or service. It contends that the price of any specific good or service is the relationship between the forces of supply and demand. Price is a distinctive element of the marketing mix for the seller, because it is the only one that generates revenue. All the other elements represent costs. Price is also important, therefore because it provides the basis for both recovering those costs and creating profit (Brassington, 1997)

According to Brassington (1997), Profit = Total Revenue – Total Cost, Where total revenue is the quantity sold multiplied by unit price and total cost represents all costs of production, marketing and distribution. Quantity sold is itself dependent on price as well as other marketing mix elements. To increase profits, a seller can only reduce the costs or justify higher prices.

‘How should I price this product?’ is a common problem facing marketers. There are many ways to set prices but the most common are cost oriented and demand oriented price setting (McCarthy, 1991). On the cost oriented, prices are set basically by adding up all costs plus a mark-up to get the selling price. Demand oriented pricing estimates demand for the product and takes more of a strategic approach, either wanting to be the leader in lowest pricing, bait pricing to attract shoppers from other outlets, psychological pricing to appeal to a target customer group, or demand backward pricing especially for gift products.

Certain product relationships allow you to change your pricing strategy. Adding optional extras, such as airline charges for extra baggage, or selling products in a bundle, hides the true cost from your consumer (McCarthy, 1991)

McCarthy (1991) concludes that firms must consider the customer before they do anything, and this certainly applies to pricing. It means that when managers set the price, they have to consider what customers will be willing to pay, plus a profit range.

Setting of prices or premiums in the insurance industry is very complex. Unlike other businesses, insurance companies cannot set prices based on known costs for production and distribution. Instead they need to project the costs of future claims by examining historical data (ISO website) Stuart Rose (2014) further agrees with the fact that insurance products are priced without knowledge of production costs. He acknowledges that the true cost of an insurance product may not be known for many years, until claims are paid. He recommends that insurers looking to optimize prices should consider the essential components namely; information management, data exploration, predictive modeling, high performance analytics and competitive intelligence. He concludes that, especially in the lines of business where price is a key differentiator, such as auto, home and some commercial lines, price optimization represents the future for insurance.

2.2.2 Theory of Price Regulation

Price regulation is defined as government oversight on direct government control over the price charged in a market, especially by a firm with market control. Price regulation is commonly used for public utilities characterized by natural monopolies. If allowed to maximize profit without restraint, the price charged would exceed marginal cost and production would be inefficient. However, because such firms, as public utilities, produce output that is deemed essential or critical for the public, government steps in to regulate or control the price. The two most common methods of price regulation are marginal cost pricing and average cost pricing. (Economic Glossary, glossary.econguru.com)

2.3 Price and Sales Volumes

This problem we are researching has been studied by many other researchers but not in the context that we are interested in. The problem we are interested in has an element of strict regulation where price is removed from the adjustable marketing mix elements, so that competition is uneven and must be based on other elements, other than price. Mwangi (2013) studied the positioning strategies in the insurance industry and identified various elements that can be used by the companies to competitively position themselves in the industry. She identified Price as a major element where firms can chose to be market leaders in terms of price, or use pricing to communicate a higher brand and product value. She acknowledges that price is highly regulated but companies still manage to underprice their products in order to beat competition.

Where this is completely fixed, what happens to the sales of the companies that were leaders in pricing?

Marucha (2012) studied the core competencies and competitive advantage of insurance firms in Kenya. He defined core competencies as those unique capabilities which usually span over multiple products or markets. He identified them as customer service, flexibility, product differentiation and information management systems. Others included, integrity, strong brand, staff skills, regional presence and prudent and ethical practices. On the flexibility, the firms embrace product customization that includes extra benefits and competitive pricing. Marucha concluded that firms use their core competencies to achieve competitive advantage. As such the firms must continually identify and strengthen their core competencies in order to sustain competitive advantage.

Richards and Peterson (2005) acknowledge price as a major factor in influencing sales, and propose price discrimination when promoting sales on short term basis. Parkinson (2010), in his study of sales volumes variances identified various challenges that come with sales volumes that are either higher than or lower that the planned sales, especially in standardized price scenario. He concluded that these variances disorganized the budgets set by organisations, especially because of the contribution margins that end up not delivering to the budgeted profits.

Balaghar 2012, evaluated all the promotional elements that an organization can use the increase sales volumes. He identifies discounted prices as one way of increasing the sales volumes. He also identifies alternative promotional tools such as advertising, flexible payment terms, public relations, direct selling and direct marketing. He concludes that the main reason for implementing the sales promotion elements is to increase sales and therefore profits. Each of the elements contributes differently and can be ranked from the most effective to the least effective.

Micu (2012) identified three strategies for pricing one being ‘Cost Plus’ second being ‘Customer Driven’ and lastly ‘Competition-Driven Pricing’ In cost plus, the price is set after considering all costs plus a mark-up for profit. Customer driven strategy is similar to value based pricing and takes into consideration the market conditions. Competition driven pricing lets prices be dictated by competitive forces in the market. They concluded that companies are now building products and marketing strategies to support pricing objectives, and not the other way round.

Managers need to know how to deal with price to manipulate the volumes of sales and eventually profits. They should realize that Sales Volumes (being the beginning assumption) depends on Price (the end of the process) and the two determine the profits earned after deducting costs. Micu (2012) actually discovered that anticipated pricing and volumes of sales should be used to determine the costs of a product.

Pearce (1991) states that in the functional strategies of marketing, the price component is perhaps the single most important consideration. That strategy directly influences demand and supply, profitability, consumer perception, and regulatory response. The approach to pricing strategy may be cost oriented, market oriented or competitor/industry oriented. In the last one for industry pricing, the pricing decisions center on those of the firm’s competitors.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the research methodology of the study. It describes the various approaches that were used in data collection and analysis in order to arrive at an answer to the research question. It focuses on the researchdesign, the target population, data collection procedures, tools and the techniques used in the analysis of the data.

3.2 Research Design

The study adopted a descriptive research design. Descriptive research is the description of the state of affairs as it exists at present, the characteristics of a particular individual or group (Kothari, 2004). It describes the who, what, where, when, why and how aspects of the research which are the focus of the study.

3.3Study Population

There are forty eight (48) insurance companies and two(2) reinsurance companies in Kenya registered with IRA as at 1st January 2014. The insurance companies are divided into threecategories;nine (9) composite companies that deal with all classes of insurance including life and general, thirteen (13) that specialize in Life only, and twenty six (26)that specialize in general insurance only. Our population of interest considered was thirty five (35) insurance companies that deal with general insurance. They are all the registered and licensed Insurance Companies in Kenya, and are also members of the Association of Kenya insurers (AKI).

The study was carried out as a census, which according to Kothari, (2004), involves a complete enumeration of all the items in a population. The census study designis the most appropriate design for the study since the population of interest is small.

A census study design provides a more accurate picture of the study, since all the items in the population are covered, eliminating the element of chance (Kasomo, 2006).

3.4 Data Collection

Data was collected by way of questionnaires (see appendix). The questionnaire was divided into two sections: the first collected the general information about the company and the second relatedto the effects of price regulation and other responsive strategies that the company has adopted. A five point likert scale with responses on extent of effects and strategies adoption wasused.

The questionnaire was first checked and edited for completeness, consistency and accuracy.It was then tested with a test group comprising of four branch managers who were in charge of smaller marketing units of the companies and who were not used later in the collection of data. They were then coded to facilitate computer data input and the classified data was tabulated.

The questionnaires were administered to senior management in the sales and marketing department of the various companies.The questionnaires were sent on email and the respondents filled, and scanned back to the researcher. Follow-up was done by phone and emails to ensure quick responses.

3.5 Data Analysis

In order to analyze collected data, a researcher needed to have the following information about the statistical data analysis and tools: Descriptive, inferential and test statistics (Miller 1991) Descriptive statistics are used to describe data collected from a sample. The mean, median, percentages and standard deviation are the most commonly used. Inferential statistics are used to make inferences from sample statistics to the population parameters.

Descriptive analysis method wasadopted to describe the distributions and range of responses for each strategy indicator. Descriptive statistical measures were used in analyzing the data which included the mean and relevant averages as well as the standard deviation (a measure of dispersion) to produce and present useful relationships. This was achieved through the use of Statistical package for Social Sciences (SPSS). The results from the analyzed data was summarized and presented in tables and the major findings and recommendationswere given.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter comprises of an analysis and findings of the data extracted from the duly completed questionnaires and presented in the form of tables. The chapter is divided into five sections; the response rate, analysis of the general information, analysis of the various market positioning strategies, the effects of price regulation on the sales of motor insurance, the strategic response by the various companies and the general opinion by various executives on the sustainability of this directive.

4.2 Response Rate

There were twenty eight (28) Insurance Companies that responded to the questionnaire out of the expected thirty five (35). This translated to a response rate of 80% as shown in table 4.1.

Table 4.1: Analysis of the Response rate frequency

No of Responses	Number	Percentage
Respondents	28	35
Non Respondents	7	20
Total	**35**	**100**

Source: Research data 2014

The researcher was working with a total population of 35 companies. There was no response from 7 companies, which is a rate of 20%.The researcher however surpassed the standard expected response rate of 60%.

4.3 Analysis of the Respondents' General Information

This section analyses the general information in respect of the various companies. This includes the functional positions of the persons who filled out the questionnaire, the ownership of the companies, number of years in operation for the company, the category of business the company transacts, whether the company has a marketing department and the age profile of their client, as presented in table 4.2.

Table 4.2: Analysis of the respondents' general information

Position of respondent in the company	**Frequency**	**Percentage**
Sales & Marketing managers	12	42.9
Deputy sales & marketing managers	9	32.1
Senior marketing Executives	7	25.0
Ownership of the insurance companies		
Foreign	0	0.0
Local	11	39.3
Mixed	17	60.7
Age of the companies(Years of Company operation in Kenya)		
1-5 years	1	3.6
6-10 Years	4	14.3
11-15 Years	4	14.3
Over 15 Years	19	67.8
Category of Insurance Company based on the line of business they transact		
General Insurance company	8	28.6
Composite insurance company	20	71.4
Existence of a Marketing department in the Company		
Yes	28	100
No	0	0

Table 4.2 continued from Page 20

Age group comprising of the majority client base		
Below 20 years	0	0
21-40 Years	15	53.6
41-60 years	12	46.4
Over 60 years	0	0

Source: Research data 2014

From the table, we can see that most of the respondents were marketing managers at 43%. This is as a result of the researcher having a better access to the respondents since this is a top and busy position in the entire company. Not far apart were the deputy managers at 32% and senior marketing executives at 25%. This class is the custodian of marketing strategies and they run with the implementation of the same. Out of the twenty eight responding companies, eleven (11) were locally owned and seventeen (17) had a mixture of foreign and local ownership. This is a split of 39% and 61% respectively. This implies that local investors are the majority in the ownership of the insurance companies in Kenya.

The bigger percentage (68%) of the responding companies has operated in Kenya for over 15 years and that serves to show that the insurance industry in Kenya is well established. Only one respondent has been around for less than 5 years. Whilst there is a wave of demerger or separation of life and general business, the newly formed subsidiaries were considered to have been around for similar time as their mother companies. However there were companies still operating as composite and we got eight (8) out of confirmed nine (9) responding. This was 28.6% of our total respondents while the majority (20 forming 71.4%) was companies specializing in general business.All respondents confirmed having a well established marketing department demonstrating that insurance must be sold and marketing is core in their operations. A slightly bigger population of the insured clients (53.4%) is in the age group of 21 to 40 years, as compared to age group 40 to 60 at 46.6%, whilst a negligible number falls below 20 and above 60 years of age.

4.4 Market Positioning Strategies used by the Insurance Companies

Different insurance companies used different positioning strategies. However, the researcher was able to narrow them down to eight and tested to what extent each of the companies applied each of the strategies. Whilst the strategies are almost similar, it is the extent applied by each company that differs. The researcher categorized the extents of each strategy used into very large extent, large extent, small extent, very small extent and others to no extent at all.

Table 4.3 outlines the various strategies adopted by the respondent companies and the extent of to which they are used.

Table 4.3: Analysis of Positioning Strategies by Insurance Companies

Strategies	%age Score	Mean score	Standard Deviation
• Product Oriented Strategies	82.1	4.10	0.90
• Products Consumer Benefits Strategies	79.3	3.96	0.98
• Pricing Strategy	69.3	3.46	1.32
• Place and Distribution Strategy	67.1	3.35	1.14
• Promotion Strategy	62.9	3.14	1.12
• People	63.6	3.17	1.04
• Processes	65.7	3.29	1.16
• Physical Evidence	77.1	3.86	1.16

Source: Research data 2014

The respondents used a total of eight strategies with different extents. Product Oriented strategies were highest used at 82%, with a mean of 4.1 and standard deviation of 0.9. This translates to large extent of usage by almost all companies. Products consumer benefits strategies, was at 79% again with a mean score of 4.0 and a standard deviation of 1.0. Physical evidence came third at 77% and pricing was fourth at 69%. Fifth was place and distribution at 67%, Sixth was Process at 66%, People was seventh at 64% and eighth was Promotion at 63%. Jubilee Insurance used all strategies with the highest extent posting a total of 40 points, while gateway used the lowest extent at 19 points. Pricing posted the highest standard deviation of 1.32 meaning that most companies differed a great deal on how they used this strategy.

4.5Effects of Price Regulation on Motor Insurance

When the regulator announced the commencement of regulated rates for motor insurance, various companies felt the effect at different extents. The researcher summarized the effects into four categories, namely compliance, customer's comfort with the new rates, the effect on sales volumes and support of the directive by the company executives. The results can be summarized as shown in table 4.4.

Table 4.4: Analysis of the effects of price regulation:

Effect of Price Regulation	**%age Score**	**Mean score**	**Standard Deviation**
• Extent of Compliance	86.4	4.32	0.93
• Extent of Customer comfort	47.1	2.36	1.08
• Extent of Negative Effect on Sales Volume	60.0	3.00	1.56
• Extent of Executive's support	78.6	3.93	1.25

Source: Research data 2014

Most companies confirmed having complied with this directive at a rate of 86.4% with a mean score of 4.32 and a standard deviation of 0.93. This translates to very high extent meaning that almost all companies complied with the directive. Customers were not comfortable with this new directive and returned a low of 47%, with a mean score of 2.36 and a standard deviation of 1.08. This means that all customers were equally affected by the directive and expressed almost similar comfort levels. The negative effect on the sales volumes were felt at 60% with a mean score of 3.0 and a standard deviation of 1.56. This means the effects on the sales volumes were felt at varying extents with some recording a total effect and others minimal effect. Those executives that supported the directive, albeit with a caveat, were 78.6% with a mean of 3.93 and a standard deviation of 1.25. This shows that most of the executives and indeed the companies they work for, support this directive since it was well intended. However the standard deviation means that there were varying extents of support as opposed to compliance. However the caveat was about the enforcement.

4.6Response Strategies following Price Regulation

The researcher summarized the strategies used by the insurers to respond to price regulations into six categories. These are; No claim discount, Additional free benefits to attract customers, flexible payment rates, incentives to intermediaries, improved processes, use of house agents and the wait and see technique.

The response from the various respondents can be summarized as shown in table 4.5

Table 4.5: Response Strategies:

Strategies	%age Score	Mean score	Standard Deviation
• No Claim Discount	87.9	4.39	0.67
• Additional Free Benefits and Extensions	69.3	3.46	0.94
• Flexible Payment Terms	73.6	3.68	1.07
• Incentives to Intermediaries	70.7	3.54	1.35
• Improved Processes and Service Delivery	67.1	3.36	1.01
• Use of In-house Agents	68.6	3.43	1.72
• Wait and See	44.3	2.21	1.18

Source: Research data 2014

The No Claim Discount was widely used by all the underwriters at 87.9%, with a mean score of highest extent as 4.39 and a standard deviation of 0.67. This was very high compared with others, probably because this was the only legal way in which prices could be flexed within the range allowed by IRA. Flexible payment terms also recorded high score of 73.6% with a mean of 3.68 and standard deviation of 1.07. Incentives to intermediaries scored 70.7%, additional free benefits at 69.3%, use of in-house agents at 68.6% and improved processes and service delivery scored 67.1%. The wait and see had the least at 44%, meaning that most companies took immediate action to respond to the directive but still had one eye watching what others were doing. Use of in-house agents returned the highest standard deviation of 1.72 since those companies without in-house agents could not use this option at all. Generally the marketing departments were alive to the challenges that came with the regulation and responded without delay.

4.7 Sustainability of the Directive

The researcher also sought the personal opinions of the various respondents on the sustainability of the directive. Specifically the researcher wanted to know the extent to which they thought the directive will be sustained into the future, if the customers and intermediaries were in support of it and if the respondent thought whether this directive would achieve its intended goal of turning around the profits of the motor insurance class. Table 4.6 analyzes the response from each of them.

Table 4.6: Sustainability of the directive:

Opinions	%age Score	Mean score	Standard Deviation
• Sustainability of the directive	55.7	2.88	1.02
• Intermediary Support	47.1	2.36	0.85
• Customers Support	46.4	2.32	0.89
• Achievement of intended Purpose	78.6	3.93	1.25

Source: Research data 2014

A simple majority of the respondents, 55.7%, believe that the directive is sustainable given the powers vested on the IRA for enforcement of the same. However, less than half confirmed that the customers and also the intermediaries were for the idea of regulated rates, returning mean scores of 2.32 and 2.36 respectively. A very big majority (78.6%) were of the opinion that should the directive be implemented to the letter, it has the capacity to turn around the motor insurance class into profitability.

4.8 Discussion

This study gives real evidence that price regulation has a direct effect on the sales volumes in the insurance industry. Given that price is one of the four pillars of marketing, and actually the most important, any inflexibility in pricing has a major effect on the possibility of making a sale. Price regulation is a negative incentive in any market and would always leave the players discouraged in their quest to compete fairly.

It is also evident that the positioning strategies of various companies in the industry have shifted in terms of importance. Prior research by Mwangi (2003) had found price to be the leading positioning strategy in the insurance industry. Others such as product and processes came second and third respectively. However, since the price regulation was implemented, the focus has changed and this study shows that insurers are now focusing more on the product and its additional benefits as well as quality documentation as evidence of the existence of the promise. Price has moved to a distant fourth in a scope of eight positioning strategies that were considered.

Industry regulations are likely to cause compliance issues and the regulator must move in to enforce the directive by penalizing those that do not follow it. If not, then the practice would easily slip back to the old practice and those who comply could feel cheated and end up also going back in order to secure their market share.

It is also evident that market prayers are in need of turning their business into profitability. It’s the desperation for market share that has driven them into price cuts in order to survive. From the research, 78.6% of the respondents supported the price regulation directive by the regulator and only hoped that the regulator could fully enforce compliance of the same. Lack of enforcement strategy is what brought about the lower number of respondents (55%) who believed that the directive could be sustained.

CHAPTER FIVE:SUMMARY,CONCLUSION AND RECCOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study from chapter four and presents conclusions, discussions and recommendations of the study based on the objectives of the study.

5.2 Summary of the Findings

The Objectives of the study were to determine how price regulation of motor insurance has affected its sales volumes, to establish the strategies used by the insurers in response to this and to seek an opinion on whether this directive is sustainable in the future. In the insurance industry, there exist three categories of companies depending on the line of business they transact. These categories are Life companies, General Insurance Companies and Composite Companies. Life Insurance Companied do not transact motor insurance and therefore the research concentrated on the other two categories. We achieved a response rate of 80% from the target population. That means out of 35 composite and general insurance companies targeted, we obtained 28 responses.

The study established that there exists common marketing strategies in the insurance industry and each of the respondent confirmed using each of the strategies. However, what differentiates them is the extent to which they apply each of the strategies, some applying more of one and less of another, while others applying most of them at moderate extents.

From the findings, the study established that product oriented strategies were the most widely used at 82% and following closely, was the consumer benefits strategies. These two work closely since while product is the variety of the insurance offerings, consumer benefits are the add-ons to the product. That means that clients know what product they want and then they are attracted by the additional benefits.

Physical evidence strategy was also widely used at 77%, meaning that insurers are now perfecting the art of giving policy documents as evidence of existing insurance contracts. This is one sure way of letting the customer feel like he bought something tangible, given that insurance is basically a promise that you cannot touch or see, and can only be actualized when some loss has occurred.

Pricing came in as the fourth most used strategy at 69%. This came as a surprise even to the researcher, since past research had placed pricing as number one consideration for most of the players in the insurance industry. This may be attributed to the fact that this research is being carried out after an event of price regulation where the players were left without an option of varying prices and had to shift to other strategies to differentiate themselves.

Place and distribution was used at 67% especially by companies who have established branches across the country. The strategy worked well after the devolution of political and developmental centers to the counties. This way the various companies were able to tap business from the county level and most of them preferred to open branches in every county headquarter.

Processes and People strategies were at 65% and 63% respectively and companies seemed to have perfected their processes therefore not focusing on that as a winning strategy. Promotion strategy was the least used, although at a fair percentage of

62.9%. This is to say that insurance companies have embraced advertisement and other promotional activities like open days and sponsoring of public activities in order to expose their brand.

When the price regulation was introduced, various companies felt the effect in a similar way but at different levels. The researcher narrowed the effects into four, first finding out if the respective insurer complied with the directive and what effect it had on the customers and the sales volumes. The respective respondents were also asked how they personally felt about the directive and whether they would support it fully.

Almost all insurers confirmed having complied with the directive. The compliance level was at 86.4% meaning that everyone complied but a few did not comply fully. Only four insurers confirmed having complied at little extent (level 2) while the rest either complied fully (level 5) or a very large extent (level 4). It could be argued that some who may not have complied fully feared to expose themselves albeit the assurance that this research is for academic purposes only.

Customers were not comfortable at all with this new directive as it meant they had to dig deeper into their pockets to pay higher premiums. Further, their power to negotiate lower premiums had been withdrawn. The study shows that only 47% of customers were comfortable with the higher premiums, meaning the rest either continued to pay under duress or may have tried to do away with the insurance all together.

The negative effect of on the sales volumes was felt at 60%. This would mean that 60% of sales revenue was lost across the industry. This would mean that most customers either downgraded their insurance from comprehensive to the compulsory third party covers, or reduced their sums insured to pay lower premiums.

Asked if they supported the directive, most executives responded positively and the support was recorded at 78.6%. Most players in the industry actually supported the directive since it was meant to eliminate price undercutting and return a profit to the insurers. The only challenge they cited was the implementation which they confirmed was not well done, and this led to shift of business from one player to the other, depending on the strictness of the compliance.

In response to the directive, and in view of the effects of customer discomfort and reduction in sales volumes, the insurers adopted various new strategies. A close examination of these strategies revealed that they could be summarized into seven and the researcher sought to find out to what extent the companies applied each of the strategies.

The most widely used strategy was the application of no claim discount commonly known as NCD. This was the range within which the insurer would adjust the customer's premiums as per the guidelines and still be compliant. The strategy was applied at 88% meaning all insurers used that option to a very large extent. This was able to hold back some customers especially those who qualified for the maximum discounts since the premium came to almost equal to what they were paying before. However, the majority of clients did not qualify for large discounts and their premiums were increased significantly.

When the premiums increased and clients were unable to pay once, most insurers also adopted a new strategy of flexible payment terms where the customer could pay the premiums in installments. The strategy was quite popular and was applied to the extent of 73.6%. This directly negated an earlier directive of cash and carry where the customer was required to pay cash for insurance obtained. However the insurer had already come up with a way in which they issued short term covers based on amounts of premium paid, with full year cover being given at the point of paying the last installment.

Insurance sales are driven by intermediaries and since they were the face of the customer to the insurer, it was important for them to be enticed to retain their business with the insurer. In order to secure the loyalty of the intermediaries, most insurers crafted various incentive programs that rewarded the loyal ones. Insurers confirmed having used this strategy at 71% with only two not having used this strategy at all while majority used it to the highest extent.

Free additional benefits were used at 69.3% and these were meant to attract the customers and to compensate them for the higher premium being demanded. Most of the insurers also tended to improve on their processes in a bid to be seen to add value to the customer. This was confirmed as being used at 67% and all insurers confirmed using it albeit at differing extents.

Most insurers also turned into using their in-house agents to solicit for business and secure what they already had. Six respondents did not use this strategy while twenty two of them confirmed having used it at different extents. On average this was applied at 68.6% and those who have the in-house agents fully utilized this strategy.

The researcher also tested the speed at which each insurer responded to the directive. A minority of 44% applied their strategies moderately while waiting to see what the regulator would do to those who did not comply. Others still went fully to implement their responsive strategies but with one eye on the regulator to see how they would enforce the directive.

Finally the researcher sought to know how each stakeholder supported the implementation of the directive. Majority of the insurers (78.6%) supported the directive and hoped it could help the industry to return a profit on this class of insurance. Motor insurance has always been a loss making class as a result of premiums being undercut by almost all the players. The claims have also been so high such that when the losses are compared with the premiums earned, the result is always negative. So when the regulator brought in the price regulation, most of the underwriters embraced it and want it implemented fully.

Unfortunately only 55.7% of the respondents thought that this directive will hold into the future owing to the desperation of some players to increase their market share. These players continue to charge lower premiums and the regulator seems not to be able to reach them. Either they are good in hiding their processes or the regulator is not in a position to enforce the earlier envisaged penalties on those who do not comply.

The customers and the intermediaries alike are lukewarm on the implementation and returned a support rate of 47% and 46% respectively. This is understandable given that it's the customer who has to dig deeper into his pocket to pay the higher premium and the intermediary is torn between sympathizing with the customer and supporting the profitability of the industry, given that it's the client who feeds him.

5.3 Conclusion

From the research and discussions above, it is evident that insurance has not penetrated a lot in the Kenyan economy despite a lot of effort to put in the correct strategies to ensure wider reach of the potential market. We can also conclude that all players in the industry use common strategies to position their companies in the volatile and very competitive industry. Such strategies are applied to various extents with some companies applying them at almost equal measures while others find their strong areas and capitalize on them, and applying other strategies to a much lower extent.

For an industry that is highly driven by prices, introduction of price regulation has far reaching effects. Such effects include decline in sales volumes and decline in market share. Customers are also very responsive to such regulation and shift their purchase preference depending on affordability.

What is more evident is the response from the insurance industry players. They quickly come up with other strategies that are meant to counter the directive so as to still retain the customers. Such counter strategies are again common among the players although they are applied at different extents. However, price is still very important as we noticed a majority of the players running to implement the no claim discount which affects the price directly. It's one of those loopholes that the complying companies used in order not to lose market share. Flexible terms of payment also plays close to pricing and was again widely used to counter the directive.

Industry regulation by the insurance regulatory authority is alive and means well for all the stakeholders. When a directive is issued and followed to ensure compliance, most of the players are ready to support it. The unfortunate bit is where compliance is not enforced and this causes the players to have no faith in the regulator being able to enforce directives.

5.4 Limitations of the Study

This study was faced with two major challenges. One challenge was that response rate, in as much as it was much higher than the average, the researcher could not convince all the insurers to respond and their views could only be guessed to average those that were received. The second challenge had to do with clarity of data. It was not very clear if all the insurers we being very truthful with the information, given that the questions asked could easily be seen to incriminate those that confessed outrightly as having defied the regulation. Despite the researcher's assurance that the data was for academic work only, most may not have been very truthful, about their compliance extents.

5.5 Recommendations of the Study

The study recommends that in the Insurance industry, all companies should work closely with the Insurance Regulatory Authority in order to contribute their views in case of a directive that may not be of positive yields. The players must also drop the price element in their quest for market share, and instead come up with better insurance products and riders that would deliver value for money to their customers.

Further, other stake holders need to be educated on the purposes of regulation, and to support the industry in such areas in order to create a stronger and profitable industry which is able to meet its obligations of claims and other services. They need to understand that the industry serves a key role in the Kenyan economy and needs to be highly regulated in order to give a return to the shareholders.

The regulator, and indeed the government need to look at their powers verses responsibility before and after they issue such directive. The directive must be of importance to all the stakeholders and they must also have mechanisms to ensure they follow up on the implementation of such directive. They should not also be seen like closing an eye on those who do not heed their directive thus putting those who comply at an unfair position.

5.6 Recommendations for Further Study

This study was carried out to find the effects of price regulation, counter-strategies in the implementation of the directive and if the same was sustainable. The study therefore recommends that further studies should be done on whether this directive was able to hold for long, the effectiveness of the counter-strategies and how the regulator has ensured implementation of their directive. It also recommends further studies in the directives issued by the regulator and the implementation strategies used to ensure total compliance.

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APPENDICES

APPENDIX I –QUESTIONNAIRE

UNIVERSITY OF NAIROBI

MBA RESEARCH PROJECT QUESTIONNAIRE

This questionnaire seeks Information strictly for academic purposes. Please answer the questions genuinely by ticking (√) in the box that corresponds to your response.

<u>SECTION A: RESPONDENTS GENERAL INFORMATION</u>

1. Name of the Insurance Company____

2. Please indicate your functional position in the Company. (Tick Appropriately)

a) Marketing Manager ( ) c) Senior Sales Executives ( )

b) Deputy Marketing Manager ( )

3. What is the ownership of your Company?

a) Foreign ( ) c) Mixed ( )

b) Local ( )

4. How many years has your company been operational?

a) 1-5 Years ( ) c) 11-15 years ( )

b) 6-10 years ( ) d) Over 15 years ( )

5. Under which category does your Insurance Company fall in, based on the line of Insurance business it transacts?

a) Composite Insurance Company ( )

b) General Insurance Company ( )

6. Does your Company have a Marketing Department?

a) Yes ( ) b) No ( )

7. Which of the following age groups constitute the major portion of your clientele?

a) Below 20 year ( ) c) 41-60 years ( )

b) 21- 40 years ( ) d) Over 60 years ( )

<u>SECTION B: MARKET POSITIONING & EFFECTS OF PRICE FIXING</u>

With the use of a 5 point scale to help you respond to the question below easily, kindly tick (√) appropriately in correspondence to your response where;

5=A very large extent **2= A Very low extent**

4= Large extent **1=No extent at all**

3=Low extent

8. To what extent have the following strategies been adopted by your Insurance company in relation to Market Positioning?					
	1	**2**	**3**	**4**	**5**
Product Oriented Strategies	( )	( )	( )	( )	( )
Products Consumer Benefits strategies	( )	( )	( )	( )	( )
Pricing Strategy	( )	( )	( )	( )	( )
Place an Distribution Strategy	( )	( )	( )	( )	( )
Promotion Strategies	( )	( )	( )	( )	( )
People	( )	( )	( )	( )	( )
Processes	( )	( )	( )	( )	( )
Physical Evidence	( )	( )	( )	( )	( )
9. In May 2014 IRA issued a directive that Insurance companies effect the "IRA Rates" for motor insurance.					
To what extent has your company complied with this directive	( )	( )	( )	( )	( )
To what extent has the customer been comfortable with the revised rating	( )	( )	( )	( )	( )
To what extent has this affected your sales volumes ( ) Positively of ( ) Negatively	( )	( )	( )	( )	( )
To what extent do you support the concept of price regulation by IRA and AKI	( )	( )	( )	( )	( )
10. Various companies responded to this price regulation with counter strategies in order to sustain their market share. To what extent has your company used any of the following counter strategies?					
No Claim Discounts	( )	( )	( )	( )	( )
Additional free benefits and extensions	( )	( )	( )	( )	( )
Flexible payment terms	( )	( )	( )	( )	( )
Incentives to intermediaries	( )	( )	( )	( )	( )
Improved processes and service delivery	( )	( )	( )	( )	( )

Use of in-house agents	( )	( )	( )	( )	( )
The wait and see	( )	( )	( )	( )	( )
11. Many of the marketing executives believe that this directive is not sustainable into the future. To what extent do you foresee the following:					
That this directive will be sustained	( )	( )	( )	( )	( )
That intermediaries will support this directive	( )	( )	( )	( )	( )
That customers will support this directive	( )	( )	( )	( )	( )
That this directive will achieve its purpose of turning motor insurance to profitability	( )	( )	( )	( )	( )

Personal Comment in relation to the price regulation by IRA.

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Thank you for your assistance in collecting this information.

APPENDIX II-INSURANCE COMPANIES
LICENCED INSURANCE COMPANIES BY THE BEGINNING OF YEAR 2014

Count	Name of Company	Category	Responded
1	Britam Insurance Company (K) Limited	Composite	Yes
2	Cannon Assurance Limited	Composite	Yes
3	Continental Rainsurance Company Limited	Composite	No
4	Kenindia Assurance Company Limited	Composite	Yes
5	Madison Insurance Company Kenya Limited	Composite	Yes
6	Saham Insurance Company Limited	Composite	Yes
7	The Jubilee Insurance Company of Kenya Limited	Composite	Yes
8	The Kenyan Alliance Insurance Co Ltd	Composite	No
9	The Monarch Insurance Company Limited	Composite	Yes
10	AAR Insurance Kenya Limited	General	No
11	A P A Insurance Limited	General	Yes
12	Africa Merchant Assurance Company Limited	General	Yes
13	AIG Kenya nsurance Company Limited	General	Yes
14	CIC General Insurance Limited	General	Yes
15	Corporate Insurance Company Limited	General	Yes
16	Directline Assurance Company Limited	General	Yes
17	Fidelity Shield Insurance Company Limited	General	Yes
18	First Assurance Company Limited	General	Yes
19	General Accident Insurance Limited	General	Yes
20	Gateway Insurance Company Limited	General	Yes
21	Geminia Insurance Company Limited	General	No
22	ICEA LION General Insurance Company Limited	General	Yes
23	Intra Africa Assurance Company Limited	General	No
24	Invesco Assurance Company Limited	General	Yes
25	Kenya Orient Insurance Limited	General	Yes
26	Mayfair Insurance Company Limited	General	Yes
27	Occidental Insurance Company Limited	General	No
28	Pacis Insurance Company Limited	General	Yes
29	REAL Insurance Company Limited	General	Yes
30	Resolutions Insurance Company Limited	General	No
31	Takaful Insurance of Africa	General	Yes
32	The Heritage Insurance Company Limited	General	Yes
33	Trident Insurance Company Limited	General	Yes
34	UAP Insurance Company Limited	General	Yes
35	Xplico Insurance Company Limited	General	Yes

Source: Association of Kenya Insurers (AKI), 2012