A SURVEY OF MARKET SEGMENTATION PRACTICES USED BY LIFE INSURANCE COMPANIES IN KENYA

BY

CHRISTINE NJAMBI KIMANI

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DECLARATION

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

Signed............................ Date..15-11-2006..................

KIMANI, CHRISTINE NJAMBI
D61/P/8597/01

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

Signed............................... Date..15-11-2006

Mrs. Margaret A. Ombok

Lecturer: Department of Business Administration

Faculty of Commerce, University of Nairobi

DEDICATION

This work is dedicated to my daughters, Jeniffer and Neema, who gave me great support . I also dedicate it to my parents Mr. & Mrs. Peter K. Muhindi for their support.

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I wish to acknowledge and thank the following individuals who contributed directly or indirectly to the completion of this work. My thanks to Mrs. Margaret Ombok for guiding and giving me the support I needed. I thank my respondents without whose input this work would not have moved.

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CHAPTER ONE
INTRODUCTION

1.1 Background

During the early years of independence, Kenya achieved commendable economic growth compared to other developing countries. Between 1964 and 1973, the manufacturing and service sector registered on average growth rate of 9.1 percent and agriculture 4.6 percent per year. The two major sectors have recorded declining performance over the last three decades (National Development Plan, 1997-2001). By mid 1980's it had become clear that structural constraints had emerged within the economy that were preventing it from achieving the high economic growth rates of 1960's and early 1970's. This led to the government adopting structural adjustment Programs (S.A.Ps) through the publication of session paper no. 1 of 1986 on economic management for renewed growth. These reforms included price decontrols, removal of all import licensing and foreign exchange controls and reforms of investments incentives public enterprise guidelines and the financial system.

The reform process or liberalization has led to stiff competition in manufacturing, service and agricultural sectors of the economy. In order to survive in this competitive environment, firms have adopted various strategic options. The options include: mergers and alliances, market segmentation, new product development, and retrenchment. The environment encapsulates many different influences. The influences are diverse, complex and change rapidly. The organizations have to simplify what is happening to understand their environment. The dynamism in the environment makes it necessary for organizations to constantly change their strategies and tactics, so as to achieve competitive advantage (Ansoff, 1987).

Each of the options adopted by a firm or organization has its own advantages and disadvantages. For instance, a larger and stronger company can enable a company to secure new capital for continued growth. This was the case in 1997, when Coopers and

Lybrand merged with Price Waterhouse. However it might mean one firm loosing it identity. The success or failure of organization is also concerned with how well they understand customer needs and are able to meet those needs. In most markets, there is a wide diversity of customer's needs. The concept of market segmentation can be useful in identifying similarities and differences between groups of customers or users.

1.1.1 Market segmentation

Churchill and Peter (1998) state that market segmentation is the process of dividing a market into groups of potential buyers who have similar needs and wants, value perceptions or purchasing behaviors. Kibera and Wariungi (1998) states that market segmentation is the division of the market into smaller homogenous sub-markets which the organization might successfully satisfy. Market segmentation is the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix.

Segmentation is based on the fact that customers differ according to age, sex, income, occupation, religion, geographical area, buying attitudes and habits. Buyers are too numerous, too widely scattered and too varied in their needs and buying practices that it calls for an appropriate customers focused strategy that will address the needs and preferences of each and every target market (Kotler, 2001). Market segmentation is therefore a prerequisite for effective marketing.

Segmentation enables a firm to find the best ways to match the firm's capabilities with groups of customers who share similar needs and thereby gain some competitive advantage. Nariman and Mahatoo (1976) note that market segmentation helps the firm to gear a specific product to the likes and requirements of a particular target group. In the long run, market segmentation allows management to identify its best profit opportunities and these result in a more efficient allocation of company resources.

1.1.2 Life Insurance companies in Kenya

Insurance companies are financial institutions and are part of the financial services industry. The industry contributes about 3% to the Gross Domestic Product (Economic Survey, 2004). The insurance industry in Kenya has 44 insurance companies of which 42 are registered to do business while two operate as closed funds. Two local reinsures are operating in the market while 4 regional and international reinsures have representation in the country. Twenty two companies are licensed to do life insurance business. The large number of firms operating in the market leads to competition among firms.

There are two classes of insurance. These are property insurance and life insurance. Property insurance is protection against loss of property while life insurance is protection against life. Life insurance products currently being sold in Kenya are; family protection, partnership protection, house purchase, financial planning, retirement planning, investment, education, credit protection, key man insurance, funeral expenses and tax planning. Insurance companies face stiff competition from other financial institutions such as banks and savings and credit societies. These institutions offer similar products like those provided by insurance companies.

Globalization and liberalization have opened up the economy to fierce competition. Rapid population growth, low economic growth and unemployment have resulted in increased poverty, crime and reduced purchasing power of the population. New laws and regulations have been promulgated, existing ones amended while Information Technology has transformed the mode and speed of business processes and communications. On the social front, higher educational levels have resulted in a more sophisticated consumer. HIV/AIDS has emerged as a major public health issues (Economic Survey 2001, 2004). These posses challenges to the insurance industry in Kenya.

There is stiff competition there being many players offering the same products, including international companies like the American Insurance Group (A.I.G). Insurance companies face stiff competition from other financial institutions such as banks and savings and credit societies which offers similar products. In order to survive firms have to put in place strategies that would give them competitive advantage over the others. The strategic options include mergers and alliances, market segmentation new product development, and retrenchment as earlier noted. Market segmentation would enable the firms find the best ways to match their capabilities with groups of customers who share similar needs and thereby gain some competitive advantage.

1.2 Statement of the problem

Lynch (1992) argues that in a business, short term profits are sacrificed in order to work more towards long-term financial stability. The long range survival, growth and wellbeing of the business as measured by meeting the needs and wants of its customers at a profit are considered – not just short range profits. A business should aim all efforts at satisfying its customers while making a profit.

Life insurance is an important sector in the financial services industry. It plays a vital role in the mobilization of long-term savings and investments in the economy. The role of life insurance to the individual is to encourage thrift upon which individual as well as national prosperity is built. Premiums payable for life policies represent significant lifetime savings for individuals and the families.

Life insurance is protection on the life of a person, and the event insured against in the life insurance (death and superannuation) is bound to happen. Life insurance creates an immediate estate for ones dependants. Life insurance is important especially to those with dependants. Life insurance penetration is a mere 0.81 percent of total population of people in Kenya which is quite low compared to other countries where life insurance is taken as a must have item. To penetrate the market, life insurance companies need to carry out market segmentation so as to come up with products that would best address the needs of the Kenyan population as many people in the country are operating below the poverty line.

Leader et al (1989) states that individuals or groups of individuals differ in terms of tastes and preference. They select products. which match their own personal expectations and evaluate the performance of products in terms of benefits enjoyed. This implies that individuals who take insurance covers do not just take any product (policy) but are interested in those products that add value to them. Given that, customer needs and wants differ, it is imperative for insurance companies to design and develop strategies that are client responsive and produce market driven services if they have to survive and prosper in a competitive environment. Market segmentation gives competitive advantage to a company over the others. It is from this position faced by insurance companies that the researcher investigated the market segmentation practices by life insurance companies in Kenya.

Studies carried out on segmentation in Kenya by Ng'ang'a (1991) Nzyoka (1993) and Kimandi (2002). mainly focused on medium and large manufacturing firms. commercial banks and micro-financial institutions respectively. Segmentation practices however vary form industry to industry. As such the findings of these studies cannot apply in the radio sector. Other studies have been carried out on life insurance in Kenya by Khamallah (1984). Angima (1987) and Wairegi (2004) on the adequacy of life insurance, life insurance in Kenya and strategic responses by life insurance companies in Kenya. None has focused on market segmentation in insurance companies.

Market segmentation gives competitive advantage to a company over the others. Segmentation is not always practiced by companies in the desired direction (Ng'ang'a 1991). It is not clear whether insurance companies in Kenya segment their market and the variables used. This study therefore sought to determine the segmentation practices by life insurance companies in Nairobi by responding to the following research questions.

(i). Which segmentation variables are used by life insurance companies in Kenya?

(ii). What criteria do life insurance companies use to segment their market in Kenya?

(iii). What procedure do life insurance companies in Nairobi use when segmenting their market?

1.3 Objectives of the study

The objectives of the study were to:

(i) Determine the market segmentation variables used by life insurance companies when segmenting their market.

(ii) Establish the criteria used by life insurance companies to segment their market.

(iii) Determine the procedure used by life insurance companies when segmenting the market.

1.4 Importance of the study

The findings of this study may be important to the following groups;

(i) Insurance companies may use the findings of this study to identify the best market segmentation practices to carry out to achieve competitive advantage.

(ii) Scholars and researchers may use the study as a foundation for developing the findings further and may act as a source of reference in the future.

(iii) The would be investors and the new insurance companies in the market would use the findings of this study to segment their markets.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Insurance pools the risks of policyholders with the aim of indemnifying them form unforeseen risks. Individuals select products which match their own personal expectations and evaluate a product in terms of benefits enjoyed. Policyholders are interested in policies that bent address their perceived risk. Leaders et al; (1989) states that individuals or groups differ in terms of tastes and preference. Segmentation consumers would help to come up with policies that are able to address the different preferences. It is therefore important for insurance firms to study consumer preferences and find out what consumers need.

The concept of market segmentation has received a widespread acceptance as a strategic tool which a firm can use to enhance its performance. Marketers and researches have not taken this lightly as it is evidenced in many articles written in relation to market segmentation. The study is intended to determine market segmentation practices used by life insurance companies in Kenya.

2.2 Meaning and importance of market segmentation

Many authors seem to be in agreement as far as the definition of market segmentation is concerned. According to Wendell (1956) market segmentation consists of viewing a heterogeneous market (one characterized by divergent demand) as a number of smaller homogeneous markets in response to differing product preferences among important market segments. It is attributable to the desires of consumers for more precise satisfaction of their varying needs and wants. McDaniel (1982) defines market segmentation as a process of dividing a heterogeneous market into segments which are identifiable for the purpose of designing a marketing mix to meet the needs of consumer in segments attractive to the firm.

Perreault et. al (1996) states that segmentation starts with the idea that each person is one of a kind but it may be possible to aggregate some similar people in product market. As such, when firms want to segment their total heterogeneous markets they have to design and develop different marketing mixes for each and every identified segment. This will obviously facilitate to customer satisfaction as well as customer retention. The Chartered Institute of Marketing (2002) argues that customers are becoming increasingly sophisticated and empowered in today's consumer environment. Hence, they have more control than ever, in deciding how, when and where to purchase goods and services. With the appropriate segmentation approach, which addresses the requirements of individual customers or a group of customers, the sophisticated demands of customers will be taken care of.

Segmentation identifies opportunities for new products development. Often a careful analysis of various segments of potential customers reveals one or more groups' whose specific needs and concerns are not being well satisfied. Bearden et.al (2001) states that market segmentation is consistent with the marketing concept and enhances the firm's ability to understand its core customers or who its core customer will be in the future. It is clear that through segmentation, organization can often attain competitive production and marketing costs and become the preferred choice of the consumers.

Marketing segmentation helps the organization to target its marketing mix more closely on the potential customer, and thus meet the customers' needs and wants more exactly. Segmentation will help to define required product benefits and features. It enables easier marketing as it is easier to address the needs of a smaller group of customers that have many characteristics in common. It enables marketers to identify underserved or un-served markets. Nariman and Mahatoo (1976), note that market segmentation helps the firm to gear a'specific product to the likes and requirements of a particular target group.

Segmentation can also help the organization to allocate its resources more efficiently. Johnson (1971) states that in the long-run, market segmentation allows management to identify its best profit opportunities and this results in a more efficient allocation of company resources. If a segment is well defined, then the organization will have sufficient understanding to develop very precise marketing objectives and an accompanying strategy to achieve them with minimum wastage. This level of understanding of segments that exist in the market also forms a very sound foundation for strategic decisions. The organization can prioritize across segments in line with its resources, objectives and desired position within the market.

Walker et al (1996) argues that segmentation has become increasingly important in the development of marketing strategies. Use of segmentation will help the organization to achieve a better understanding of itself and the environment within which it exists. The organization has to examine its capacity to serve that customer better. The organization analyses the competitors' offerings in the context of the customer and should be able to appreciate its weaknesses and strengths. Segmentation helps a firm to find the best ways to match the firm's capabilities with groups of customers who share similar needs and thereby gain some competitive advantage.

2.3 Criteria for effective Market Segmentation

The Chartered Institute of Marketing (1999) argues that one of the problems of market segmentation is determining to what extent definable market segments are worth pursuing especially when considering developing an individual promotional campaign. Therefore, the following factors should be taken into account when evaluating the effectiveness of a market segment: First, size. One of the first questions to be asked concerns whether the market is of sufficient size to justify attention or not. The second criteria is measurability. For effectiveness of a market segment, it is necessary to establish whether there are different groups of people with relatively homogeneous buying habits. Thirdly, accessibility –A good market segment is one that is highly accessible in terms of infrastructure (that is good transport and communication network).

The fourth criteria is unique in response. The market segment identified must exhibit similar behavioral characteristics in as much as the individuals making up the segment would all respond in a similar way to a targeted marketing strategy. For instance, if price of a product is reduced, all the targeted market would increase their products purchase rate or usage rate. Stability is the fifth criteria. For any firm to divert resources to a particular market segment, it must reassure itself that the segment would remain fairly stable over a long period of time to warrant specific market attention. Sixth, Actionability. This is the degree to which marketing programs can be formulated for attracting and serving segments. Walker et al (1996) notes that not all segments represent equally attractive opportunities for the firm. As such, firms need to priorities segments by their potential.

The researcher would like to establish the market segmentation practices and the criteria used to select them by the life insurance companies given that very few people buy their policies. Paliwoda (1993) argues that market segmentation follows the rationale of concentrating resources on the best prospects. Further to the above, he stresses that it is where one adopts a 'rifle: strategy at a given target segment as opposed to the general market at large which would constitute an 'short gun' approach. This implies that where a firm focuses attention on few selected market segments and develop appropriate marketing programs for them, it would attain maximum return on investment.

Perruault et al (1996) states that managers sometimes face ethical decisions when selecting segmenting dimension. For instance; nutritionist criticizes firms that market soft drinks, candy and snacks for children. Also some hospitals only want to serve patients who have health insurance and others discourage parents from bringing sick children to the emergency room in the middle of the night. Managers of the organizations must therefore understand ethical issues that surround each and every market for effectiveness of a market segment. It is necessary to establish whether there are discrete groups of people with relatively homogeneous buying habits. Kotler (2001) contends that demographic variables are used because they have proved to be good predictors of differential buyers response. They are the only primary variables for which data is easily available.

2.4 Bases for Segmenting Consumer Markets

Palmer (2001) identified four traditional variables for segmenting a heterogeneous consumer market. Geographic segmentation is one of the variables used where a total market is divided into different geographical limits such as nations, regions, states, cities, provinces and districts. Another variable is Demographic segmentation which involves dividing a total and heterogeneous market for a firm on the basis of variables. Such as age, sex, family life cycle, income levels, education, occupation, religion, race, ethnic group and nationality.

The third variable is psychographic segmentation- where buyers are divided into different groups on the basis of their lifestyle, personality and social characteristics. According to the Chartered Institute of Marketing (1999), life-style segmentation groups people on how they spend their time and money. Kibera. et.al; (1998) states that the level of education in Kenya, and other African countries continues to rise and this has implications for marketers. With many young people finishing high school, marketers must prepare not only for more sophisticated discerning consumers but for consumers who have different needs and wants. Better educated consumers generally demand a higher quality in both goods and services.

Lastly, segmentation can be done based on consumer responses. Marketers segment the market by dividing the buyers into groups on the basis of their knowledge use attitude or respond to a product. This is also referred to as behavioural segmentation. A segment can be divided on the benefit sort, user status, usage rate and loyalty status.

Palmer (2001) suggests that if segmentation methods used by service organizations are examined more closely it becomes apparent that demographic variables tend to be most widely used segmentation bases. Life insurance is a service organization the researcher would like to determine the basis used for its market organization. Walker et al (1996), states that the objective of segmentation is to divide the market into groups of prospective buyers of a product or service who are relatively homogeneous with regard to their demands.

2.5 Segmentation Process

When deciding on the segmentation scheme to adopt, organizations need to use a systematic approach that would address all the variables in the heterogeneous market. Walker et.al (1996), states that the objective of segmentation process is to divide the market into groups of prospective buyers of a product or service who are relatively homogeneous with regard to their demands. The process must describe these groups so that members can be readily identified, determine the size and value of each group and describe all the differences in customers needs and wants.

According to Kotler (2001) effective segmentation requires three steps namely: survey analysis and profiling. At the survey stage the researcher conducts exploratory interviews on focus groups to gain insight into consumer motivations, attitudes and behavior. This helps to identify useable market segments i.e. markets that have different market response functions to marketing activity by answering the questions whom buys and what is bought?

At the analysis stage, data collected at the survey stage is analyzed so as to identify different segment with isolated consumer behavior. The researcher applies factor analysis to the data to remove highly correlated variables, and then applies cluster analysis to create a specified number of different segments.

The last stage in the segmentation process is profiling stage. Each cluster is profiled in terms of its distinguishing attitudes, behavior, demographics and psychographics. Each segment is given a name based on its dominant characteristic. The firm should develop a competitive positioning for the product or service offering within the selected segments. The firm needs to assess the delivered benefits from each segment in relation to corporate goals which will provide the rationale and justification for further development of each market or evaluating the potential and likely success of the segments (Bearden, 2001).

The segmentation process should make management to understand how their market works. For further successful segmentation, the focus should be on customer needs and wants. This will help them align their resources with their customers' expectations. However, market segmentation must be redone periodically because market segments change. There maybe changes in benefit derived or demographic characteristics of the segment change.

2.6 Summary of literature review

The studies on market segmentation reveal that segmentation is very relevant to all enterprises irrespective of their nature. It leads to appropriate allocation of a company's resources by focusing on the most profitable segment. It also gives a company a competitive advantage as a firm matches its capabilities with groups of customers with similar needs and wants. Effective segmentation allows the firm to serve some segments of the market extremely well enabling delivery of quality customer value.

The literature proposes that the most common criteria are that market segments ought to be identifiable, sizeable enough to be profitable and amendable to efficient targeting. The focus for segmentation should be the customer needs and wants. Customers can be segmented based on Geographic, Demographic, Psychographic or Behavioural variables. Segmentation process entails surveying, analyzing and profiling of segments.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

The research was a descriptive study intended to establish the extent to which life insurance companies in Kenya practice segmentation. According to Copper et. al (1994), a descriptive design is used to determine the who, what, when, where and the how of a research topic. This survey was mapped on similar concerns.

3.2. The population

The population of interest in the study comprised of all life insurance companies in Kenya According to the Commissioner of Insurance list of 2005, there were 22 insurance companies that sell life insurance in Kenya. Census study was conducted, given the small size of the population.

3.3 Data Collection

Primary data was collected using a structured questionnaire. 'Drop and pick later' method was used to administer the questionnaire. One respondent from each insurance company was interviewed. This was the head of the marketing function in the company.

The questionnaire had been divided into four parts. The first part captured the general information of life insurance companies. The second part aimed at establishing whether life insurance companies segment their consumer markets and identify the commonly used segmentation criterion. The third part identified the variables used by life insurance companies in the segmentation process. The fourth part focused on generating information on segmentation procedure used by life insurance companies.

3.4. Operational Dimensions of Segmentation Practices

1. Meaning and Importance of Market Segmentation

Dimension of Segmentation	Relevant issues	Relevant Questions
Meaning	Concept	1.
Type of individual customers	Indicating the nature of individual clients	
Programs	Listing the life insurance products offered	

2. Criteria for Effective Segmentation:

Dimensions of segmentation	Expanded Dimensions of Segmentation	Relevant Issues	Relevant Questions
Size and Growth	▪ The size of the market ▪ Growth potentiality	▪ Number of clients whether, small, medium or large	3 (a)
Measurable	▪ Different clients with homogenous buying habits	▪ Ability to establish different clients and their characteristics	3 (b)
Accessible	▪ Coverage of the market	▪ Ability to reach clients	3 (c)
Actionable/responsiveness	▪ Clients response or feedback to insurance companies	▪ Clients complaints, compliments, suggestions and non-response	3 (d)

3. Bases for Segmenting Consumer market:

Broad Dimensions of Variables	Extended definition of variables	Relevant issues	Relevant questions
Demographics	Age	Clients can be infants, youth, adults or old age	7 (a) (i)
	Sex	Males, female	(a) (ii)
	Income	Low, middle and high income earners	(iii)
	Family life cycle	Single, married with children	(iv)
	Education	Clients can be of primary, secondary, college and university education	(v)
	Occupation	Clients can be sportsmen, doctors and others	(vi)
	Religion	Christian, Muslim, other	(vii)

	Race	African, non-Africans	(viii)
	Ethnic group	Which tribe	(ix)
	Nationality	Kenyan, Non-Kenyan	(x)
Geographic	Country	Kenya	7 (b) (i)
	Regions	Western, Central	(ii)
	Cities	Nairobi, Mombasa	(iiii)
	Towns	Nakuru, Eldoret	(iv)
	Provinces	Western, Nyanza	(v)
	Districts		(vi)
	Locations		(vii)
	Residential area		
Behavioral	Benefits sought	Is it investment, endowment, pension	7(c) (i)
	User status	Non-client, previous client, policyholder	7(c) (ii)
	Usage rate	Regular client, one time client	7(c) (iii)
Psychographics	lifestyle	Rural, urban	7(d) (iv)
	Personality		
	Social class		
Problems encountered		Issues and problems encountered when segmenting the market	8
Segmentation process			
Dimension of stages		Relevant issues	Relevant questions
Survey	Know the clients and policies they hold	Consumer motivation, attitudes and behavior	9 (a & b)
Analysis	Correlated variables	Isolated consumer behavior	9 (c& d)
Profiling	Dominant characteristics	Attitudes, behavior, demographics or psychographics	9 (e)

3.5. Data Analysis

Data collected for the three objectives was analyzed using descriptive statistics. For general information questions, frequencies and percentages were used. Data in part B was analyzed using the mean score and standard deviation to determine the criteria, variables and procedure of market segmentation used by life insurance companies. The findings have been presented inform of tables and pie chart.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1 Introduction

This chapter contains data extracted from the completed questionnaires. The data is summarized and presented in form of tables. The study targeted 22 life insurance companies but got response from 18 of them. This gave a response rate of 80%. The chapter was divided into three parts. Part one analyses the general profile of the life insurance companies. Part two analyses the segmentation criterion while part three analyses the variables used for segmentation. The fourth part focused on the segmentation process.

4.2 Profile of Life Insurance Companies

The profile of life insurance companies was examined in terms of the age of the organizations, their ownership and the products they offer. The information is summarized in Table 1.

Table 1: Profile of Life Insurance Companies

PROFILE	NO	PERCENT
Age of the organization		
Less than 5 years	2	11
6-10 years	3	17
11-15 years	5	28
More than 15 years	8	44
TOTAL	**18**	**100**
Ownership of the firm		
Locally owned	14	78
Joint/mixed	3	17
Foreign owned	1	5
TOTAL	**18**	**100**
Segmentation of the market		
Yes	16	89
No	2	11
TOTAL	**18**	**100**

In regards to the length of time the companies have been in operation, 44% have operated for more than 15 years, 28% for over 10 years, 17% for over 5 years while 11 percent have operated for less than 5 years. The ownership of the life insurance companies was shown to be 78% as locally owned, 17% as joint ownership and 5% as foreign owned. This reveals that most companies are locally owned. It was also revealed that most of the companies practiced market segmentation. This was given as 89%.

Types of products offered

The insurance companies offered different products to their customers which are broadly classified into Life policies, Life assurance products, investment policies, medical insurance and riders. The response is summarized in table 2.

Table 2: Products offered by life insurance companies

Product	No.	percent
Own life policies	18	100
Life of Another policies	18	100
Joint life policies	18	100
Term Assurance	18	100
Whole life Assurance policies	18	100
Endowment policies	16	89
Annuities	14	78
With-profit policies	10	56
Types of bonus	8	44
Unit-linked policies	3	17
Medical insurance	4	22
Accidental Death or Double Accident Benefit	6	33
Disablement Benefit	6	33
Premium Waiver Benefit	6	33
Critical Illness or Dread Disease cover	6	33
Personal Accident policies	8	44

All life insurance companies showed to have own life, life of Another, Joint life and Term Assurance policies. Endowment policies were offered by 89% of the companies while Annuities were offered by 78% of the companies. 56% of the companies offered With-profit policies. Types of Bonus and Personal Accident policies were offered by 44% of the companies. 33% percent of the companies offered Accidental Death Disablement Benefit, premium waiver Benefit and Critical Illness or Dread Disease cover. Medical insurance was offered by 22% of the companies while only 17% of the companies offered Unit-linked policies. This varied product offerings shows some extent of market segmentation.

4.3 Market segmentation Criteria

In regard to market segmentation criteria, market size, measurability, uniqueness in response, stability, accessibility and actionability were given. The extent of their use was given based on a 5 point likert scale. This means that a mean score of 4-5 means that the variable was used to a very great extent, 3-4 means that it was used to a great extent, 2-3 represents a moderate use of the variable while 1-2 means a small extent of use and a score of 0-1 means no use of the variable.

The responses they gave were summarized as shown in table 3.

Table 3: Market segmentation criteria

Market segmentation criteria	**Mean Score**	**Standard deviation**
Size	4.416	1.134
Measurability	3.166	1.870
Unique in response	2.166	1.216
Stability	4.333	1.512
Accessibility	2.583	1.612
Actionability	4.333	1.512
Overall mean	**3.499**	**1.476**

Source: Research Data

In regards to criteria for market segmentation, market size had the highest mean score of 4.416. Stability and Actionability followed with mean scores of 4.333. Measurability had a mean score of 3.166 with a standard deviation of 1.870. Accessibility had a mean score of 2.583. Uniqueness in response had a mean score of 2.166. The overall mean was 3.499. This showed that life insurance companies used market size, stability and actionability to a very great extent. Measurability was used to a great extent while accessibility and uniqueness in response were used to a small extent. A variable with a standard deviation of above 1 shows that the variable was used to some extent while that below 1 means no use of the variable.

4.4. Bases for segmentation

The bases for market segmentation were given as demographic, geographical or psychographic. The extent of their use was given based on a five point likert scale. This means that a mean score of 4-5 means that the variable was used to a very great extent, 3-4 means that it was used to a great extent, 2-3 represents a moderate use of the variable while 1-2 means a small extent of use. 0-1 means no use of the variable.

4.4.1. Demographic segmentation

The respondents indicated to what extent their companies used demographic variables to segment the market. The response is summarized in Table 4.

Table 4: Demographic segmentation

Demographic variable	Mean score	Standard Deviation
Age	4.510	1.892
Sex	2.166	1.232
Occupation	4.335	1.421
Educational level	3.333	1.335
Family-life-cycle	3.795	1.561
Income levels	4.333	1.421
Religion	2.750	1.367
Nationality	2.166	1.232
Overall mean	**3.658**	**1.647**

Source: Research Data

The most used Demographic variable was Age which had a mean score of 4.510. Income level had a mean score of 4.333. Occupation followed with a mean score of 4.333. Family-life-cycle was next with a mean score of 3.795. Level of education had a mean score of 3.333. Religion had a mean score of 2.750. Sex and Nationality had mean scores of 2.166. This shows that Age, Income level and occupation were used to a very great extent. Family-life – cycle and level of education were used to a great extent. Religion, Sex and Nationality were used to a small extent. They all had a standard deviation above 1 which means that all the variables were used. The overall mean of 3.658 showed that demographic variables were used when segmenting the market.

4.4.2 Geographic segmentation

Nine geographic areas were given and the response to geographic variables used are summarized in Table 5.

Table 5: Geographic segmentation

Geographic variable	Mean score	Standard Deviation
Country	2.166	1.012
Region	4.416	1.398
Cities/towns	4.500	1.426
Provinces	4.333	1.351
Districts	4.255	1.222
Divisions	3.333	1.333
Locations	2.756	1.420
Residential areas	2.458	1.634
Overall mean	**3.589**	**1.349**

Source: Research data

Geographic variables had cities/towns with the highest mean score of 4.500. Region had a mean score of 4.416. Provinces followed with a mean score of 4.333. Districts were next with a mean score of 4.255. Divisions had a mean score of 3.333. Locations followed with a man score of 2.756. Residential areas had a mean score of 2.458. Country was last with a mean of 2.166. Cities/towns was the most used geographic variable. Region provinces and districts also were used to a great extent. Divisions were used to a great extent. Locations, residential areas and country were used to a small extent. They all had a standard deviation above 1 showing that they were used. The overall mean of 3.589 showed that geographic variables were used to a large extent when segmenting the market.

4.4.3 Psychographic segmentation

The respondents gave response to the extent to which psychographic variables are used to segment the market and were as summarized in Table 6.

Table 6: Psychographic segmentation

Psychographic variable	Mean score	Standard Deviation
Life style	4.416	1.501
Personality	4.250	1.477
Social class	4.251	1.071
Knowledge	3.333	1.333
Use	4.166	1.515
Attitude	2.766	1.232
Response to a product	2.450	1.781
Overall mean	**3.581**	**1.342**

Source: Research Data

In regard to psychographic variable lifestyle had the highest mean score of 4.116. It was followed by social class with a mean score of 4.251. Next was personality with a mean score of 4.250. Use of the product followed with mean score of 4.166. Knowledge was next with a mean score of 3.850. Attitude followed with mean score of 2.766. Last was response to a product which had a mean score of 2.450. Lifestyle, social class, personality and use of the product had their mean above 4 which shows that they were used to a very great extent. Knowledge was used to a great extent while attitude of response to a product were used to a small extent. The overall mean score was 3.581. This showed that psychographic variables were used when segmenting the market.

4.5 Segmentation process

The respondents were asked to indicate the process their companies use when segmenting their market. Their responses were summarized in Table 7.

Table 7: Segmentation process

Survey	**No**	**Percent**
Yes No	16 2	89 11
TOTAL	**18**	**100**
Analysis		
Yes No	16 2	89 11
TOTAL	**18**	**100**
Profiling		
Yes No	16 2	89 11
TOTAL	**18**	**100**

In regard to the segmentation process. 89% of the insurance companies segmented their market using the segmentation process. Kotler (2001), states that effective segmentation requires three steps namely; survey, analysis and profiling. They segmented the market by carrying out the survey, analysis and profiling of their customers.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter gives a summary of the findings as well as conclusions drawn from the data analysis. The data was obtained from the population of life insurance companies in Kenya and findings summarized in line with the objectives of the study. Recommendations were given to the relevant parties.

5.2 Discussion

The aim of the study was to establish market segmentation practices used by life insurance companies in Kenya. Life insurance companies offer various life insurance products, investment policies, medical insurance and riders. From the data obtained from the respondents, all the firms offered life policies, and life assurance products were offered by 90% of the firms. Investment policies were offered by 40% of the firms while only 20% offered medical insurance and riders.

In regard to criteria for market segmentation, the highest mean score was market size with a mean of 4.416 and a standard deviation of 1.134. This means that market size was used to the largest extent as a criteria for market segmentation. This was followed by actionability and stability which had a mean of 4.333 and standard deviation of 1.512. Measurability was fourth with a mean of 3.166 and standard deviation of 1.870. The least used variables were accessibility and unique in response with a mean of 2.583 and 2.166 and standard deviation of 1.612 and 1.216 respectively. This means that firms largely segmented their market based on market size.

Regarding the bases for segmentation, the highest mean score was age with a mean of 4.510 and standard deviation of 1.892. This was closely followed by income level and occupation with a mean of 4.333 and standard deviation of 1.421. They were followed by family-life cycle with a mean of 3.795 and standard deviation of 1.561. This was followed by educational level with a mean of 3.333 and standard deviation of 1.333. Religion having a mean of 2.750 and standard deviation of 1.367 was next. The least used bases were sex and nationality which had a mean of 2.166 and standard deviation of 1.232. This means that the most used bases for segmenting the market is age, followed by income level and occupation. This is in confirmation with Palmer(2001) who suggested that if segmentation methods used by service organizations are examined more closely, it becomes more apparent that demographic variables tend to be the most widely used segmentation bases.

The response on Geographical variables used when segmenting the market, cities/towns had the highest mean of 4.5000 and standard deviation of 1.426. This was followed by region with a mean of 4.416 and standard deviation of 1.398. This was followed by provinces and districts with a mean of 4.333 and 4.255 respectively and standard deviation of 1.351 and 1.222. Divisions had a mean of 3.333 and standard deviation of 1.333. Locations followed with a mean of 2.756 and standard deviation of 1.420. Residential areas had a mean of 2.458 and standard deviation of 1.634. The least used was country with a mean of 2.166 and standard deviation of 1.012. This showed that life insurance companies segment their market mostly by cities/towns.

With regards to psychographic segmentation, life style had the highest mean of 4.416 and standard deviation of 1.501. It was followed by social class and personality with a mean of 4.251 and 4.250 respectively and standard deviation of 1.071 and 1.477. Use followed with a mean of 4.166 and standard deviation of 1.515. Knowledge was next with a mean of 3.850 and standard deviation of 1.436. Attitude was next with a mean of 2.766 and standard deviation of 1.232. The least used psychographic variable was response to a product was the least variable with a mean of 2.450 and standard deviation of 1.781. This showed that life-style was the most used psychographic variable.

In regards to the segmentation process, 89% of the life insurance companies segmented their market. They followed segmentation process whereby they started by carrying out a market survey, then analyzed the market. From the analysis they profiled the customers according to their characteristics and gave them a name based on their dominant characteristic.

5.3 Conclusion

From the findings discussed, the following conclusions were drawn:

44% of the life insurance companies in Kenya were over 15 years old in the market. 78% of them are locally owned and serve only Kenya. 89% of the companies segmented their market while 11% did not. The criteria for market segmentation that was mostly used were market size. Stability and actionability were other commonly used criteria for market segmentation. Demographic, geographic and psychographic variables were used as the bases for segmentation. Age was the most used demographic variable while cities or towns were the most used geographic variables. Lifestyle was the most used psychographic variable. Demographic variables were confirmed to be the most commonly used segmentation bases. Palmer (2001) had suggested that if segmentation methods used by service organizations are examined more closely it becomes apparent that demographic variables tend to be most widely used segmentation bases. They were also the earliest information to collect from the customers.

The segmentation process was followed by all the life insurance companies that did market segmentation. They carried out a market survey, analyzed the information from the survey and profiled the market based on the dominant characteristics. This is in accordance to Kotler (2001), who argued that effective segmentation requires three steps namely; survey, analysis and profiling.

5.4 Recommendation

The insurance industry is a confidence business. It writes as long as the public is confident that it works and that their money is secure. One major area of shift in insurance consumers has to do with population trends and dynamics. The consumer make-up now significantly includes women and youths – both owning businesses; middle class seniors; less skilled workers; informal sectoral growth; home as a centre for work, entertainment and socialization etc. Hence, opportunities for delivering insurances at home; and international – expatriate workers. Life assurance long-term growth still lies in areas such as group and personal pension schemes, annuities and healthcare provisions. To survive and improve profitability in the future, insurance companies will have to eagerly embrace change and develop the ability to learn faster and take bold steps as their competitors in the financial services arena. Many changes outside the industry impact positively or negatively. Hence, there is need to dedicate some times to keep an eye on the rest of the industry and, indeed, the world. Scanning information, digesting change, anticipating the future, learning new skills and understanding the changes is important. From this information, life insurance companies will be able to come up with better understanding of the changing needs of the consumers. They would be able to segment their market better and come up with products that are best suited for their customers.

The distribution systems need to be improved to make them more effective and cost efficient. They can use the emerging internet electronic distribution mechanisms. Direct response marketing can be used instead of the traditional agency system. Banc assurance can also be used as a distribution channel. These developments will help in cost and productivity efficiency, as well as provide a viable means of assuring adherence to market place standards of conduct and improved profitability.

Limitations of the study

The study was only limited to market segmentation by life insurance companies. It did not consider general insurance.

The time of study coincided with the time when there are many regulations going on in the country that affect life insurance. This would include regulation on the national health insurance of those afflicted by HIV/AIDS and registration of agents.

Most of the respondents were simply not willing to give out information sighting management policy.

Suggestions for further research

This study only dealt with market segmentation of life insurance. Further studies can be done on market segmentation of general insurance. Studies should also be carried out on consumer make-up to establish the changing needs of the consumers of life insurance products and their responses.

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APPENDICES

APPENDIX 1

QUESTIONNAIRE

This questionnaire consists of questions asking for general information about yourself and market segmentation of life insurance. The information is for research purposes only and will be used to make recommendation on market segmentation. The information you give will not be shown to anybody.

Instructions

Please indicate by putting at tick (√) on the response that applies to you.

PART A

General Information

1. Name of your insurance company____
2. How long have you been with your current employers?

   Less than 5 years ( )

   Between 6-10 years ( )

   Between 11-15 years ( )

   More than 15 years ( )

3. How long has your insurance company been operating?

   Below 5 years ( )

   Between 6-10 years ( )

   Between 11-20 years ( )

   Over 20 years ( )

PART B

Market segmentation is defined as the process of dividing a total and heterogeneous market into –sub-markets or divisions that are homogenous in nature.

1. Do you segment your market?

Yes ( )

No ( )

If your answer is yes, proceed to section 1 but if not proceed to section 2.

Section 1

2. Indicate the nature of your individual customers by ticking the appropriate boxes.

Middle aged people ( )

Old aged people ( )

Professionals ( )

Others specify____

____

3. When segmenting your total market, to ensure effective market segmentation, you have to address the following questions.

(a) How is the size of your market?

Small ( )

Medium ( )

Large ( )

(b) Are your customers willing to provide necessary information to your company?

Yes ( )

No ( )

(c) Are you able to reach your clients all the time?

Yes ( )

No ( )

(d) Do clients complain, compliment or give suggestion?

Yes ( )

No ( )

(e) Do your clients react or act differently to your products?

Yes ( )

No ( )

4. Which of the following life insurance policies do you offer?

Term Assurance ( )

Whole life Assurance ( )

Endowment policies ( )

Any other specify ______________________________

____

Section 2:

5. Why don't you segment your market?

a) Firm is too small ( )

b) Have little knowledge about segmentation ( )

c) All customers have similar needs ( )

d) Market is not accessible ( )

6. Unformalized market segment;

a) How do you ensure that your services (policies) are suitable for all customers?

____

____

b) How do you prospect for customers?______________________________

____

c) How will you know the specific requirements of your customers?______________________________

____

d) How will you know if customers are satisfied or not?______________________________

____

PART C

7. To what extent has your company used the following variables to segment the total market? (Please tick the applicable variables to your company). On the scale of 1-5 where:

5 to a very great extent ( )

4 to a great extent ( )

3 to a moderate extent ( )

2 to a small extent ( )

1 to no extent ( )

Variables

(a) Demographics:			1	2	3	4	5
(i)	Age	Youth	( )	( )	( )	( )	( )
		Adults	( )	( )	( )	( )	( )
		Old aged	( )	( )	( )	( )	( )
(ii)	Sex	Male	( )	( )	( )	( )	( )
		Female	( )	( )	( )	( )	( )
(iii)	Income	Low income	( )	( )	( )	( )	( )
		Middle income	( )	( )	( )	( )	( )
		High Income	( )	( )	( )	( )	( )
(iv)	Family life cycle	Single	( )	( )	( )	( )	( )
		Newly married	( )	( )	( )	( )	( )
		Married with children	( )	( )	( )	( )	( )
(v)	Education	Primary	( )	( )	( )	( )	( )
		Secondary	( )	( )	( )	( )	( )
		College	( )	( )	( )	( )	( )
		University	( )	( )	( )	( )	( )
(vi)	Occupation	Sportsmen	( )	( )	( )	( )	( )
		Doctors	( )	( )	( )	( )	( )
		Teachers	( )	( )	( )	( )	( )
		Businessmen	( )	( )	( )	( )	( )

		Others	( )	( )	( )	( )	( )
(vii)	Religion	Christian	( )	( )	( )	( )	( )
		Muslim	( )	( )	( )	( )	( )
		Others	( )	( )	( )	( )	( )

(b) Geographic:

Country	( )	( )	( )	( )	( )
Regions	( )	( )	( )	( )	( )
Cities/towns	( )	( )	( )	( )	( )
Provinces	( )	( )	( )	( )	( )
Districts	( )	( )	( )	( )	( )
Divisions	( )	( )	( )	( )	( )
Locations	( )	( )	( )	( )	( )
Residential areas	( )	( )	( )	( )	( )

(c) Psychographics

Life style	( )	( )	( )	( )	( )
Personality	( )	( )	( )	( )	( )
Social class	( )	( )	( )	( )	( )

8. In your own opinion, what are the benefits of market segmentation to the company?____

____

9. Explain the need for your insurance company to segment its market____

____

____

____

____

10. To be able to design and develop services that reflect the will of the customers, several activities are undertaken during the segmentation process. In view of this, which of the following activities are applicable to your firm? (Tick as may apply to you)

a) We usually assess our potential customers ( )

b) We investigate our existing customers changing needs ( )

c) We serve out customers with similar services ( )

d) We investigate our customers price needs ( )

e) Global markets are served to generate maximum profit ( )

f) Our customers look for us when in need of our services ( )

g) We ensure that each identified market segment is profilied according to different characteristics ( )

h) We assume that customers will our services ( )

i) We ensure delivery of quality customer services ( )

Thanks

APPENDIX 2

NAMES OF COMPANIES LICENCED TO TRANSACT LIFE INSURANCE BUSINESS IN KENYA

Name of Company	Composite or Pure life
Apollo	Pure life
Blue Shield	Composite
Cannon Insurance	Composite
CFC Life Insurance	Pure Life
Cooperative Insurance	Composite
Corporate Insurance	Composite
Geminia Insurance	Composite
Heritage Insurance	Composite
Insurance Company of East Africa	Composite
Invesco Assurance	Composite
Jubilee Insurance	Composite
Keninida Assurance	Composite
Kenya Alliance	Composite
Madison Insurance	Composite
Mercantile Life and general Assurance	Composite
Old Mu.tual Life Assurance	Pure life
Pan Africa Life Insurance	Pure life
Pioneer Assurance	Pure life
The Monarch Insurance	Composite
Trinity Life Assurance	Pure life
U.A.P Provincial Insurance	Composite

INTRODUCTORY LETTER

Christine Njambi Kimani,

University of Nairobi

School of Business

P.O. Box 30197,

NAIROBI.

JULY 2006

Dear Respondent,

RE: COLLECTION OF SURVEY DATA

I am a postgraduate student at the University of Nairobi, School of Business. In order to fulfill the degree requirements, I am undertaking a management research project on market segmentation practices by life insurance companies in Kenya. You have been selected to form part of this study. This is to kindly request you to assist me collect the data by filling out the accompanying questionnaire.

The information you provide will be used exclusively for academic purposes. My supervisor and I assure you that the information you give will be treated with strict confidence. At no time will you or your organization's name appear in my report. A copy of the final paper will be availed to you upon request.

C.N. Kimani

MBA Student

University of Nairobi

Margaret Ombok

Lecturer/Supervisor

University of Nairobi