STRATEGIC RESPONSES BY JUBILEE INSURANCE COMPANY LIMITED TO THE INDUSTRY'S ECONOMIC ENVIRONMENT AND CHANGES IN THE INSURANCE INDUSTRY IN KENYA

BY

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DECLARATION

This research project is my original work and has not been submitted for a degree course in this, or any other University.

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This research has been submitted with my approval as a University Supervisor.

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DEDICATION

To my dear Daughter Mutanu, my wife Jackline and friends, Maingi, Muendo and Brother Francis.

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This work would not have been possible without the encouragement, moral support and assistance given by my Lecturers, Family members, MBA colleagues, and workmates. My special thanks go to my supervisor Dr. Awino for his guidance and advice. My appreciations are further extended to all the lecturers of University of Nairobi, especially Dr. Ogutu and others in the school of business for imparting invaluable knowledge to me. I also feel greatly indebted to my fellow employees at Jubilee Insurance and other colleagues in the company who respondent to my Interview guide. Finally I acknowledge the support received from all my MBA classmates.

ABSTRACT

Over the last 10 years there have been many changes in the Kenyan economy. These changes have a considerable impact on all industries and the insurance industry is no exception. This research project was a case study on Jubilee Insurance Company Limited. The objectives of the study was to identify the challenges faced by Jubilee Insurance Company in the economic environment and changes in the insurance industry in Kenya and the kind of strategic responses it has adopted. In order to meet these objectives, primary data was obtained through personal interviews with the respondents responsible for developing the strategic responses at Jubilee Insurance Company to address the economic environment and changes in the insurance industry in Kenya. The same respondents have also been overseeing the implementation of these responses. The data was analyzed qualitatively. The study established that the economic environment and changes in the insurance industry in Kenya posed major challenges to Jubilee Insurance Company. These challenges were due to the changes in the business environment in terms of high inflation rate, unemployment, and high interest rates, legislative and hostile economic policies. The study established that Jubilee Insurance Company responded to economic environment and changes in the insurance industry in Kenya through strategic choices which include: new product development, entering new markets, improved customer services, employees' motivation and adoption of state of art of Information technology systems.

Finally, the study found that there were structural and legal impediments which needed to be overcome before the insurance industry could develop and achieve a high penetration. Such impediments include composite licensing; weak industry regulating framework and the taxation regime, which if well regulated will see insurance firms like Jubilee Insurance Company making good profits commensurate to strategic responses.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Economic climate have not stopped the insurance industry from flourishing in Kenya. The life and non-life subsectors have steadily and strongly grown and this is expected to continue. As Ansoff and Mc Donnell (1990) noted that successful firms continually scan their environment in order to identify future economic, competitive, technological and political discontinuities, which could affect their operations, hence insurance firms need to do a lot to remain in the market.

However, this has not meant consistent profitability across all the companies involved or all business lines. In particular, many of the non-life companies providing health insurance have failed to make a profit from this line. The life sector has continued to develop and its premiums account for about a third of the total. Kenyan institutions are gathering long-term savings from domestic investors, which is very different from Nigeria and even from much richer and more stable countries in the Middle East. This is encouraging, not least because the sector is made up of local firms apart from than Pan Africa, the largest player in the segment with a market share of around 20%, which has a strategic alliance with a subsidiary of South Africa's Sanlam.

The sector is fragmented, with the three largest non-life companies, Jubilee, APA and Kenindia, accounting for about a quarter of total premiums written in the segment. APA is the consolidation of Apollo with Pan Africa's non-life operations. There is plenty of scope for much more consolidation. Some foreign insurers do operate in Kenya. South

African's Old Mutual has a small life operation in Kenya and four major Indian insurers - New India Assurance, Oriental Insurance, United India Insurance and Life Insurance Corporation of India - are minority shareholders in Kenindia. Compared to multinational insurance companies from developed countries these firms have a high tolerance of emerging market risks and low exposure to the volatility of capital markets in the wake of the global financial crisis. The industry faces some significant challenges, one of which is the lack of knowledge about insurance. Companies have to deal with a lack of consumer understanding, the lack of incentives to employers, the domination of the market by brokers and cut-throat price competition. It is estimates total premiums in 2010 of KES72, 641 million. This includes non-life premiums of KES47,051 million and life premiums of KES25,590mn. In 2015, the corresponding figures are forecast to be KES139, 968mn, KES99, 531mn and KES40,438mn respectively.

In terms of the key drivers that underpin our forecasts, we expect non-life penetration to rise from 1.60% in 2010 to 1.85% in 2015, and for life density to rise from US$8 per capita to US$13 over the same period. BMI's proprietary Insurance Business Environment Rating for Kenya is 36.8. Issues To Watch Product Development And Pricing Traditionally, the products produced by Kenyan insurers have often been suboptimal, undifferentiated and have competed on price alone. To improve profitability this needs to change. Actions of the Regulation Authority In May 2007, regulatory responsibility for the insurance sector were transferred to the Insurance Regulatory Authority (IRA). In 2008, the authority published a corporate plan that showed that it has a clear understanding of the problems facing the industry. It continues to be a potential driving force in the development of the new insurance act and its actions will dictate how much the industry's problems and challenges are likely to be overcome. Further Industry Consolidation is a favorable development, as would any move by the foreign groups that are already present in Kenya to increase their investments. The Kenyan market is also a young market that is still not well versed with the diversity of the insurance industry because many people are not used to paying premiums in order to alleviate the risks. Most Kenyans therefore consider the rates high and therefore they don't seek insurance. This has not been good for business in the industry as most insurance companies strain to meet their budget and pay claims. Some have resorted to unethical means of luring customers into this industry through inadequate rates leading to inadequate claims paying ability.

Mismanagement of insurance companies is also a notorious factor that hampers insurance industries in Kenya. Hamel & Prahalad (1989) view organizations as composed of many individuals all of whom are engaged in making decision that must be coordinated. Some insurance companies lack proper management due to lack of transparency, which has led to customers losing their money in the process and thus making the public lose trust in the industry. Incompetent management could lead to unrealistically low premiums that make insurance affordable yet not payable. Incompetency is also found in the relay of wrong messages to the public by insurance agents who are often unqualified.

Laws to govern the insurance industry have also sometimes failed to meet the unique needs of the third world market. When insurance companies are forced to pay large amounts of money for licenses and that burden is passed to the public, rates are affected. Dishonesty by the public has also hampered business in Kenya, such as by duplication of coverage so as to attempt to realize doubt recoveries. Lack of a big pool of customers has led to problems in realizing the "law of large numbers" on which insurance is predicated. Lack of proper research has led to decision making, especially as to insurability of risks and setting rates and premiums accordingly.

1.1.1 Strategic response

Competition in the insurance industry is fierce. And consolidation, globalization and the convergence of services are making it more difficult for insurance companies to survive. Added to that are today's challenges of responding to such issues as poor economic conditions, poor economic policies and hostile economic legislation, which have lead to significant underwriting losses, reduced investment returns and other negative effects. In this volatile business environment, the insurance industry is struggling to find ways to create sustainable value.

Gerry and Scholes (2003), define strategy as 'the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations'. In its determination of the long-term direction of an organization, strategy involves the interplay of three elements: the organization's external environment, its resources and its objectives (in meeting the expectations of its stakeholders). Strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firms objectives (Piearce and Robinson 1997). Mugabi (2003) revealed that tourist hotels responded to changes in the environment by using restructuring, selective shrinking, marketing and cost management. He noted that this involved re-organizing the organizing structures so as to cater for the new changes in the environment. Customer desk concept for example has been taken by most organizations as an example of some of the structures changes in the environment. Mpungu (2005) found that AAR responded to changes in the environment by introducing new products, restructuring and enhancing its technology.

Githii (2007) found that Rwathia group of businesses responded to changes in the environment by price adjustments, modernization of their facilities, training, differentiation and diversification. Regardless of the advancement in technology there is very minimal movement towards this advancement more so in the business where this is expected to have an impact on their efficiency as noted by Githii for the case study of Rwathia Distributor Limited. Wairegi (2004) found that life insurance companies responded through such initiatives such as new product development, development of new distribution channels such restructuring, investment in human resource development and computerization of the core business process. Ramona (2008) found that, for Barclays bank of Kenya to remain competitive in the market, it adopted some strategies responses which were offering wide range of products and services, engaging highly skilled staff, automation of business processes, avoiding use of publicity, outsourcing support, advertisements and also reducing operating staff. Ansoff and Mc Donell (1990) note that strategic responses involve changes to the organization behavior such responses may take many forms depending on the environment in which it operates. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive advantage. Companies react differently to economic environment, some come up with new products, diversification, improved customer care, new IT innovations, and differentiation.

1.1.2 Economic Environment

Various environmental factors such as economic environment, socio-cultural environment, political, technological, demographic and international, affect the business and its working. Economic factors which have their effect on the working of the business are known as economic environment. It includes system, policies and nature of an economy, trade cycles, economic resources, level of income, distribution of income and wealth. Economic environment is very dynamic and complex in nature. As Mutua (2004) noted organization exist in a complex commercial, economic, political, technological, cultural and social environment, it does not remain the same. It keeps on changing from time to time with the changes in an economy like change in Government policies.

Economic policies of a business unit are largely affected by the economic conditions of an economy. Gerry and Scholes (2003) in this category added population demographics, income distribution, lifestyle change and level of education. All these factors dictate the direction toward which the business should be moving. Any improvement in the economic conditions such as standard of living, purchasing power of public, demand and supply, distribution of income, Largely affects the size of the market. Economists and financial observers use observations on numerous economic factors to understand the behavior of an economy. However, the four macroeconomic factors aggregate output measure, the unemployment rate, the inflation rate, and the interest rate do summarize the most important characteristics of a macro economy. These four factors can be reduced to an even smaller group because they are related. If the real gross domestic output goes up, employment will go up sooner or later.

Producers may first request overtime from existing workers if they are not sure whether the increased level of output can be maintained in the future. But as soon as they feel reasonably sure that the increased output level is relatively permanent, they will hire additional permanent workers. This will raise the level of employment of the labor force in the economy and will, in general, reduce the unemployment rate. Thus, the aggregate output measure and the unemployment rate variable go hand in hand. Either will suffice to convey roughly the same information about economic conditions in the economy. Of the two, it is has been customary to use the unemployment rate because it is more readily understood than a measure of aggregate output such as GDP.

1.1.3 Insurance Industry in Kenya

In the forty years since independence, Kenya's insurance industry has flourished, and by 2002 had 41 registered insurers, 15 transacting general insurance business, 2 transacting life business, while 24 were composite insurers transacting both life and general insurances. Kenya's insurance industry leads within the East Africa Community (a trading block of Kenya, Uganda and Tanzania), and is a key player in the COMESA region, (Common Market for Eastern and Southern Africa). The industry employs over 10,000 people, underwrites well over €300m premiums, and pays over €120m per annum in claims. The largest 10 insurers handle over 70% of the motor business with a similar number handling well over 90% of the property business in the market.

The Insurance Industry has continued to endear itself to the existing and potential customers through new products and a significant improvement on its service delivery platforms, guaranteeing consumers of world-class services delivery. The Industry is regulated by the Insurance Act. Cap 487 which is currently under review. The Insurance Amendment Act, 2006 brought the Insurance Regulatory Authority to life. Certain sections of the Insurance Act, Cap 487 were amended effective Ist May, 2007 to allow for the Conversion of the Department of Insurance into an autonomous Insurance Regulatory Authority. The creation of the Insurance Regulatory Authority (IRA) to replace the office of the Commissioner of Insurance under the Ministry of Finance has not only instilled a sense of confidence in the regulatory framework in the industry but has also injected new approaches to ethics, management and growth of the insurance investments in Kenya. From the AKI. IRA and the AIBK to the insurance underwriters, experts in insurance are embracing a new strategy that is aimed at ensuring the industry commands the respect they deserve and that more customers are taking up the services and are also becoming critical champions to drive insurance growth so as to counter the erstwhile. limiting perceptions that insurers are out to fleece the public with little or no likelihood of making a return from the lucrative covers offered. In consultation with the regulator, agents' body and member associations, the insurance firms are developing new products that are not only friendly to consumers but which pioneers service delivery in an under-exploited market category.

1.1.4 Jubilee Insurance Company Limited

The Jubilee Insurance Company Limited was incorporated in 1937 as a composite insurer and provider of mortgage finance, based in Mombasa. In the years that followed, Jubilee spread its sphere of influence throughout East Africa, and opened branches in Dar-es-Salaam, Kampala, Bombay, Karachi, Mauritius and Zanzibar. In the decades preceding independence in Kenya, the insurance industry comprised companies owned mostly by British insurers who operated in East Africa by way of branch offices. Jubilee was thus one of the pioneers in the establishment of a locally incorporated insurance company. In 1973, in keeping with its mission of contributing to the development of the region Jubilee took the bold step of converting into a public company to broaden its ownership base, and it was listed on the Nairobi Stock Exchange.

Today, Jubilee Insurance, a wholly owned subsidiary of Jubilee Holdings Limited, has an issued share capital of Kshs 225 million and the highest shareholders' funds in the Kenyan insurance industry. It has over 6,300 shareholders. The operations of the Jubilee Insurance Company of Uganda Limited were revived in 1992, following a period of stability and economic growth in the country. Its shareholders include the Aga Khan Fund for Economic Development and the Development Finance Company of Uganda Limited. Today, Jubilee Uganda is considered one of the leading insurance companies in the country. Again in cooperation with local shareholders, the Jubilee Insurance Company of Tanzania Limited was formed and in June 1998 earned the distinction of being the first private sector insurance company to be licensed following liberalization of the insurance market in Tanzania. In addition to its primary listing on the Nairobi Stock Exchange, Jubilee Holdings was cross listed in 2006 on the Uganda Securities Exchange and on the Dar-es-Salaam Stock Exchange.

Jubilee Insurance is a respected East African brand with a strong financial base and over 70 years of experience in the industry. Jubilee operates through a network of head offices in the East African capital cities of Nairobi, Kampala and Dar es Salaam and has eight branches spanning the region. It employs over 400 employees across East Africa and safeguards the interests of businesses, individuals and families, by consistently providing them with the best tailored solutions to meet their needs. In its announcement for its financial results for the year ending 2010 (Daily Nation 14th April 2011) , Jubilee Insurance Company Limited, announced an 84% increase in pre-tax profit for the full year period ended December, 31, 2010, which propelled it past the formidable Kshs 2 billion mark, from Kshs1,116 billion in 2009 to Kshs2,053 billion in 2010. Notably, it crossed the Kshs 10 billion gross premium level which is an impressive 25% increase over 2009. Life insurance recorded an exceptional 42% growth, and short term business increased by 24%, which incorporates a 33% growth in the general business of Jubilee Kenya and a 28% growth in Jubilee's successful medical franchise. Jubilee also enhanced its focus on its core business activity and as a result of first class risk management and selection practices achieved a 42% increase in underwriting profits to Kshs 523 million in 2010 from Kshs 367 million in 2009. Assets also grew from Kshs24,874 billion in 2009 to Kshs31,652 billion in 2010. Long term business grew by an overall 28% in 2010, with life insurance recording a growth of 42%, due to the success of its customer focused education and asset building products which are built around the long term saving and protection needs of Jubilee's customers.

Jubilee's strong performance marks the success of the company's initiative to increase market penetration in the region. Jubilee Kenya consolidated its market leadership with an impressive 33% growth in general business, 23% in medical business and 43% in life business. The inaugural company in the Group's portfolio, it grew by an overall 28% consolidating its leadership position in the Kenyan market.

1.2 Research problem

The economic environment is continuously changing hence giving businesses serious challenges to stay in the market. The market is prone to challenges such as high inflation rate, unemployment, high interest rates, and hostile economic legislation which makes operation of firms a nightmare in the competitive market. Hence companies have to come up with well tailored strategic responses in order to remain in the market.

Managers also need to be quick to respond capably to keep the company on track and to meet its objectives. They must be outwardly focused aware of important trends that will impact on business. Factors such as inflation rate, unemployment, interest rate, make it very challenging for companies to operate. This is because the income levels of consumers are low hence unable to purchase products from the market as per firms expectation, for this reason; organizations face the prospect of either not surviving or of changing their activities in response to those factors (Porter 1980).

Previous studies have been done on strategic response of firms to the changes in the environment (Wairegi 2004, Mugambi 2003, Githii 2007, Kiptugen 2003, and Okanda 2004). The studies agree that organizations must come up with superior strategies in order to remain competitive in the market, but none of them has focused on Jubilee Insurance Company Limited and to be precise economic factors as all address the issue of environment without being specific to what kind of environment. This study seeks to determine how Jubilee Insurance has responded to the industry's economic environment and changes in the Insurance Industry in Kenya?

1.3 Objective of the study

To determine the strategic responses adopted by Jubilee Insurance Company Limited in dealing with industry's Economic environment and changes in the Insurance Industry in Kenya.

1.4 Value of the study

The study will help Jubilee Insurance Company Limited in responding to threats posed by the economic factors and changes or dynamics in the Insurance Industry in Kenya by coming up with appropriate strategies which will make it grab any available opportunities and remain profitable. It will also enable Jubilee Insurance Company Limited to consolidate its market leadership in Kenya and indeed in all its subsidiaries.

By addressing the issues of low level income earners, being one of the economic factors in the Kenyan market, the study will assist Jubilee to develop well tailored products which can be affordable by the low end consumers. It will also assist Jubilee Insurance Company Limited in deciding whether to consolidate its operations in Kenya or to diversify its operations in other African countries.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

A literature review is an account of what has been published on a topic by accredited scholars and researchers. But more often it is part of the introduction to an essay, research report, or thesis. The purpose of the literature review is to convey to the reader what knowledge and ideas have been established on a topic, and what their strengths and weaknesses are.

2.2 Concept of Strategy

A strategy is a long term plan of action designed to achieve particular goal most often "winning" (Thompson et al, 2007). Strategy is differentiated from tactics or immediate actions with resource at how by its natures of being extensively premeditatedly and often practically rehearsed. Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with the cognition of where you are and what you have now. Your most dangerous competitors are those that are most like you. The differences between a firm and its competitors are the basis of its advantage. If a firm is in business and its self supporting, then it already has some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Clayton, C., 1997).

Gerry and Scholes (2003), defines strategy as 'the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources with the aim of fulfilling stakeholder expectations'. In its determination of the long-term direction of an organization, strategy involves the interplay of three elements: the organization's external environment, its resources and its objectives (in meeting the expectations of its stakeholders).

Strategic response to competitive environment is the art and art of for formulating, implementing and evaluating cross functional decision that will enable an organization to achieve its objectives amid the competitor's existence. It is the business of specifying the organizations objectives, developing policies and plans to achieving the organization's objectives. Strategic management comes in handy which combine the activities of the various functional areas of a business in achieving organizational objectives. It is the highest level of managerial actively, usually formulated by the board of directors and performed by the organization's Chief executive Officer (CEO) and executive team. Strategic management provides overall direction to the enterprise and it is closely related to the fields of organization studies (Treacy and Wiersema, 1993).

"Strategic management is an ongoing process that assesses the business and the industries in which the company is involved; assesses its competitor's and sets goals and strategies to meet all existing and potential competitors; and then reassess each strategy annually or quarterly to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, news technology , new competitors, new economic environment or, a new social financial or political environment". (Lamb, 1984). Strategic management is a combination of three main processes namely; strategy formulation, strategy implementation and strategy evaluation. Strategy development is a multidimensional process that must involve rational analysis and intuition, experience and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives. Moreover, critical decisions become susceptible to the whims and preferences of individual managers, to contemporary fads, and the wishful thinking (Henry, 1978).

According to Collis et al (1995) concepts, theories and analytic framework are not alternatives or substitutes for experience commitment and creativity. But they do provide useful frames for organizing and assessing the vast amount of information available on the firms and its environment and for guarding decisions, and may even act to stimulate rather than repress creativity and innovation. The benefit of strategy is not just offering simplification and consistency to decision making, but the identification of strategy as the commonality and unity of all the enterprises decisions also permits the application of powerful analytical tools to help companies create and redirect their strategies. Strategy can help the firm establish long term direction in its environment and behavior (Gary & Prahalad, 1993).

Equally important, a strategy serves as a vehicle for achieving consistent decision making across different departments and individuals. Hamel & Prahalad (1989) views organizations as composed of many individuals all of whom are engaged in making decisions that must be coordinated. For strategy to provide such coordination requires that the strategy process acts as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of large companies. The shifts of responsibility of strategic planning from corporate planning departments to line managers and the increased emphasis on discussion the businesses and the corporate headquarters (as opposed to the formal approval of written plans) are part of this increased emphasis on strategic planning as a process for achieving coordination and consensus within Companies (Buzzell & Gale, 1987).

Strategy is forward looking. A fundamental concern is what the firm (or the individual or the organization more generally) wants to be in the future. Such a view is often made explicit in a statement of company vision. The purpose of such goal setting is not just to establish a direction to guide the formulation of strategy, but also to set aspiration for the company that can create the motivation for outstanding performance. Hamel and Prahalad (1989) argue that a critical ingredient in the strategies of outstandingly successful companies is what they term "strategic intent" or an obsession with achieving leadership within the field of endeavor. Business strategy, which refers to the aggregated operational strategies of single business firm or that of an SBU in a diversified corporation, refers to the way in which a firm competes in its chosen arena. Michael (1980) views corporate strategy, as the overarching strategy of the diversified firm, such corporate strategy answers the questions of "in which business should we compete? " and " how does being one business add to the competitive advantage of another portfolio firm as well as the competitive advantage of the corporation as a whole. Since the turn of the millennium, there has been a tendency in some firms to revert to a simpler strategic structure. This is being driven by information technology. It is felt that knowledge management system should be used to share information and create common goals. Strategic divisions are thought to hamper this process (Trigeorgis, 2001)

2.3 Strategic response

Competition in the insurance industry is fierce. And consolidation, globalization and the convergence of services are making it more difficult for insurance companies to survive. Added to that are today's challenges of responding to such issues as poor economic conditions, poor economic policies and hostile economic legislation, which have lead to significant underwriting losses, reduced investment returns and other negative effects. In this volatile business environment, the insurance industry is struggling to find ways to create sustainable value.

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2.4.1 Economic Conditions

Economic Policies of a business unit are largely affected by the economic conditions of an economy. Gerry and Scholes (2003) in this category added population demographics, income distribution, lifestyle change and level of education. All these factors dictate the direction toward which the business should be moving. Any improvement in the economic conditions such as standard of living, purchasing power of public, demand and supply, distribution of income. Largely affects the size of the market. Economists and financial observers use observations on numerous economic factors to understand the behavior of an economy. However, the four macroeconomic factors aggregate output measure, the unemployment rate, the inflation rate, and the interest rate do summarize the most important characteristics of a macro economy. These four factors can be reduced to an even smaller group because they are related. Notice that if the real gross domestic output goes up, employment will go up sooner or later.

Producers may first request overtime from existing workers if they are not sure whether the increased level of output can be maintained in the future. But as soon as they feel reasonably sure that the increased output level is relatively permanent, they will hire additional permanent workers. This will raise the level of employment of the labor force in the economy and will, in general, reduce the unemployment rate. Thus, the aggregate output measure and the unemployment rate variable go hand in hand. Either will suffice to convey roughly the samc information about economic conditions in the economy. Of the two, it is has been customary to use the unemployment rate because it is more readily understood than a measure of aggregate output such as GDP. Similarly, the nominal interest rate and the inflation rate are linked. If the inflation rate goes up, so does the nominal interest rate. This is because people care about the real interest rate (the interest rate adjusted for the inflation rate). Thus, if the inflation rate goes up, the real value of a given nominal interest rate declines. As a result, savers require higher nominal interest rates in order to be compensated for the higher inflation rate. Usually, the difference between the nominal interest rate and the inflation rate is 3 percent a level at which lenders feel comfortable lending. Thus, the nominal interest rate and the inflation rate also go hand in hand. Out of these two factors, it has been customary to use the inflation rate to describe economic conditions because the public readily understands it. Thus, the minimum number of characteristics used to describe economic conditions is two: the unemployment rate and the inflation rate. They both have negative connotations neither a higher unemployment rate nor a higher inflation rate is considered desirable. Even reporting information on these two factors gets a little complicated as it is widely believed that there is a tradeoff between the unemployment rate and the inflation rate.

Macroeconomic policy makers can follow an economic policy that may lower one rate while increasing the other. Thus, an expansionary monetary policy may reduce the unemployment rate by increasing the aggregate demand in the economy due to a lower interest rate, consumers are able to finance additional spending through borrowing, and businesses are able to invest more as the cost of borrowing goes down. The upward pressure on aggregate demand, however, also places upward pressure on the price level, raising the inflation rate. Because of the above mentioned tradeoff, it is desirable to examine information on both the unemployment rate and the inflation rate to better understand the economic conditions in the economy. Sometimes, these two factors are combined, in an attempt to give a better picture than when unemployment and inflation rates are looked at separately. The sum of the unemployment rate and the inflation rate has been dubbed as the misery index. The adjective "misery" alludes to the negative connotations associated with the unemployment and inflation rates. Adding those together takes care of the tradeoff one rate may go up and the second may go down, but the misery index captures both. Thus, the higher the values of the misery index, the worse are the overall economic conditions. One must, however, realize that the use of a single broad concept such as the misery index is probably not adequate to describe economic conditions properly. At the bare minimum, one should use the unemployment rate and the inflation rate separately to summarize the economic conditions of an economy.

2.4.2 Economic Policies

Economic Policies affects the different business units in different ways. It may or may not have favorable effect on a business unit. The Government may grant subsidies to one business or decrease the rates of excise or custom duty or the government may increase the rates of custom duty and excise duty, tax rates for another business. All the business enterprises frame their policies keeping in view the prevailing economic policies. The control of inflation has become one of the dominant objectives of government economic policy in many countries. Effective policies to control inflation need to focus on the underlying causes of inflation in the economy. For example if the main cause is excess demand for goods and services, then government policy should look to reduce the level of aggregate demand. If cost-push inflation is the root cause, production costs need to be controlled for the problem to be reduced. Ideally government should be a sort of caretaker, not of the people themselves, but of the conditions which will allow individuals, producers, traders, workers, entrepreneurs, savers, and consumers to pursue their own goals in peace. If government does that, and no more, the people will be able to provide for themselves much better than the government possibly could.

Economic policies are like the Monetary policy formulated by the central bank of a country to control the supply and the cost of money (rate of interest), in order to attain some specified objectives, the Fiscal Policy which is may be termed as budgetary policy. It is related with the income and expenditure of a country. Fiscal Policy works as an instrument in economic and social growth of a country. It is framed by the government of a country and it deals with taxation, government expenditure, borrowings, deficit financing and management of public debts in an economy. There is also the Foreign Trade Policy which also affects the different business units differently. Example if restrictive import policy has been adopted by the government then it will prevent the domestic business units from foreign competition and if the liberal import policy has been adopted by the government then it will affect the domestic products in other way.

2.4.3 Economic Legislation

Economic Legislations enables Governments of different countries frame various legislations which regulate and control the business. For the Kenyan insurance industry, it is under the Insurance Act, Chapter 487 of the Laws of Kenya, which has been an effective tool for regulating the insurance industry since its' enactment in 1984 (operational since January 1987) but over time has become a less than ideal piece of legislation and tool for responding to the changing insurance environment.

The Act has been amended substantially over its twenty (20) year life but on a piecemeal basis, which has not been sufficient to up-date its relevance to the required level. In this regard, it became necessary to review the relevance of the legislation and propose a modern framework for supervision and development of the industry. In particular, the insurance industry will continue to play an important role within the financial services sector of the Kenyan economy, through the mobilization of savings as well as the provision of security in the event of loss of lives or property. Its intention is to Draft Bills that should be directed at supporting the industry towards achievement.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Research methodology entails a documented process for management of projects that contains procedures, definitions and explanations of techniques used to collect, store, analyze and present information as part of a research process. It also describes the method used by the researcher in data collection.

3.2 Research Design

A research design is a framework specifying the relationships among the study variables. The researcher used a case study design which is suitable in situations where questions such as how, why and what are investigated on a certain phenomena to give facts of the situation as it is, without interference with by the researcher. This design is where background, development, current conditions and environmental interactions of one or more individuals, groups, communities, businesses or institutions is observed, recorded and analyzed for stages of patterns in relation to internal and external influences. This design was considered appropriate since only Jubilee Insurance Company Limited was used for the study on how it deals with challenges in the economic environment. It was also appropriate because an in-depth and comprehensive inquiry was required to be conducted to have in-depth description of the subject under study.

3.3 Data Collection

Primary data source was used for data collection. An interview guide contained open ended questions. The interview guide was divided into three sections; A, B and C.

Section A addressed the general information about the respondents and the company, Section B addressed the economic factors, while Section C addressed the main issues in order to seek responses to the research questions. The target population for the study was six and included: the Chief Executive Officer (CEO) and the Departmental heads of Jubilee Insurance Company who include; Head of Pensions, Head of Finance, Head of Medical, Head of Life, and Head of Information Technology. The study targeted these top management employees since they are involved in strategy development and execution. The six respondents used in this study were all stationed in Jubilee House Building. The interview guide was administered by face to face interview. The researcher visited the interviewees in their work stations.

3.4 Data Analysis

Once the responses were received, the interview guide was edited for completeness and consistency before processing. Thereafter, the data was coded to facilitate categorization. The data collected on the strategic responses was analyzed qualitatively on the basis of the strategic variables highlighted. Content analysis was used in analyzing the in-depth qualitative data that had been collected. This technique was successfully used by other scholars such as Kiptugen 2003, Githii 2007, and Ramona 2008. Lastly the researcher analyzed the content which fits the study themes as given by the respondents.

CHAPTER FOUR : DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter discusses the data analysis and the research finding for the study. The data collected was analysed and interpreted in line with the aim of the study, namely strategic responses by Jubilee Insurance Company to the Industry's Economic Environment and changes in the Insurance Industry in Kenya. Content analysis was used in analyzing the in-depth qualitative data that had been collected.

4.2 The Respondents

The respondents in this study included the heads of department at Jubilee Insurance Company and were involved in the formulation of the strategic responses that were subject of study. The strategic areas of responses were Marketing, Information Technology, Human Resources, and Customer Service to the Industry's Economic Environment and changes in the Insurance Industry in Kenya, and are charged with the responsibility of overseeing the implementation of these responses. Majority of the respondents have held Senior Management positions at Jubilee Insurance Company for over five years. The rest were new entrants both from within and outside the Insurance Industry. Thus, their contributions to the strategic responses by Jubilee Insurance Company to the industry's economic environment and changes in the insurance industry in Kenya are drawn from a broad reservoir of experience and knowledge.

4.3 Economic Environment

Investor confidence is the outcome of several factors including political and macro-economic stability, transaction costs, security of persons and property, reliability of infrastructure, stability in policy and consistency in its implementation, efficiency of the administrative, legal and regulatory framework, and sound macro-economic management.

Kenya has witnessed a decline in economic growth in the last two decades. Among the factors contributing to this economic decline and the deteriorating business environment, are poor infrastructure, a weak institutional framework, the poor performance of the Agricultural and Manufacturing Sectors, crime and insecurity and poor governance. Coupled with these factors is the weak implementation of policies. Consequently, the ability of the Private Sector to contribute significantly to the country's economic growth has declined, with investor confidence experiencing a downward trend. This has resulted in decelerated Foreign Direct Investment (FDI) and slow growth in local investments. In such an environment, investment plans tend to be short term at best. Indeed, significant local entrepreneurs have moved to neighboring countries, where they have contributed to the relatively higher FDI growth rates recorded in those countries in recent times.

Following the ERS initiative, there has been some improvement. Interest rates have declined due to restrictions on government borrowing, and there have been some efforts to address the state of poor infrastructure as well as rising crime and insecurity. While these efforts are bearing fruit, there remains much more that needs to be done to create a dynamic and competitive environment for business.

The PSDS will build on the ongoing initiatives in order to ensure that the best interests of the Private Sector are served in the course of implementing ongoing reforms. It also takes into account and advances interventions proposed under the Investment Climate Action Plan (ICAP) developed in March 2005. The ICAP identified high impact, low cost interventions that would immediately improve the business environment in Kenya. The interventions are grouped into nine clusters. The ICAP is being implemented over a period of 24 months, beginning July 2005. Actions included in the ICAP form the first phase of interventions for improving the business environment.

4.3.1 Economic conditions

The high inflation rate has affected the running of businesses in Kenya. Some companies have found it hard to support themselves in these tough economic times. Some have resulted to staff reduction in order to cut on costs. This has led to increased unemployment rate in the country which has rendered many Kenyans poor, hence unable to afford the basic commodities. For the Insurance Industry, this has led to underwriting losses as the public is unable to afford insurance. Commodities like kerosene have increased in prices making the ordinary person unable to afford this basic need. Commodities like petrol and diesel which are used in industries to run machines have also realized very high increases in prices. The transport sector has also seen the rise in prices in vehicle fares which have had a big impact on the ordinary Kenyans who have to walk to their places of work as they cannot afford fare.

Due to high inflation, the cost of living has shot up, rendering many Kenyans living in poor conditions unable to afford the basic items. This has in turn resulted in increased crime as poor Kenyans look for ways of trying to provide for their families. The cost of getting credit has also gone up tremendously hence making it impossible for ordinary Kenyans to afford credit which they can use to better their lives.

4.3.2 Economic policies

A policy introduced on increment of premium payments of motor insurance cover has affected the insurance business as most insurance companies have turned to unethical ways of getting business, they liaise with brokers who bring in business using the previous rates, hence hurting the insurance companies which are charging the new high rates. This has affected The Jubilee Insurance Company as it is charging the required rates; hence the motor insurance business has real been affected by this new policy.

Treasury has repealed a law that bars early retirees from accessing part of their retirement savings, offering a lifeline to thousands of Kenyans who are currently living in poverty with millions of shillings in frozen pensions. The law used to block early retirees from accessing money contributed by their employers to their retirement scheme until they are aged 50 years. Pension contributors leaving a company after serving more than a year in a scheme were only entitled to their contribution and can only tap into the investment income and their employer's contribution upon attaining the mandatory retirement age of 60. Pension managers see this being punitive to them as it has caused massive disruption in their investment plans. This has affected Jubilee Insurance Company as it is one of the leading pension managers. There is lot outflow of money since this law was passed hence affected the investment plans of Jubilee Insurance Company. Treasury also plans to divert new savings of all schemes which receive statutory contributions into government pockets through an amendment to the Retirement Benefits Act that will require pension schemes that receive statutory contributions to invest only in government securities and infrastructure bonds issued by public institutions.

4.3.3 Economic legislations

The creation of the Insurance Regulatory Authority (IRA) to replace the office of the Commissioner of Insurance under the Ministry of Finance has not only instilled a sense of confidence in the regulatory framework in the industry but has also injected new approaches to ethics, management and growth of the insurance investments in Kenya.

Factors that have adversely affected the growth of insurance services range from a restrictive legislation particularly on the investment of insurance funds (insurance companies are required to invest 25% of their funds in government securities and 65% with statutory bodies); poor discipline and supervision; shortage of qualified personnel in actuarial and other technical areas; restriction on the incentives insurance firms can offer to clients; impediments associated with limited liability requirements and unrealistic court awards; the huge and persistent losses in the motor insurance business occasioned by high rates of vehicle theft and road accidents; general economic problems related to poor infrastructure, low level of literacy and awareness, and low ability to save; mandatory cessions to reinsurance companies that erode profits; government-fixed commission rates payable to insurance brokers; excessive bureaucracy in the office of the commissioner of insurance; and political interference.

4.3.4 Other economic factors

Through its impacts on the labour force, households and enterprises, AIDS has played a significant role in the reversal of human development in Africa. One aspect of this development reversal has been the damage that the epidemic has done to the economy, which, in turn, has made it more difficult for countries to respond to the crisis. One way in which AIDS affects the economy is by reducing the labour supply through increased mortality and illness. Amongst those who are able to work, productivity is likely to decline as a result of HIV-related illness. Government income also declines, as tax revenues fall and governments are pressured to increase their spending to deal with the expanding HIV epidemic.

The abilities of African countries to diversify their industrial base, expand exports and attract foreign investment are integral to economic progress in the region. By making labour more expensive and reducing profits, AIDS limits the ability of African countries to attract industries that depend on low-cost labour and makes investments in African businesses less desirable. The impact that AIDS has had on the economies of African countries is difficult to measure. It is thought that the impact of AIDS on the gross domestic product (GDP) of the worst affected countries is a loss of around 1.5% per year; this means that after 25 years the economy would be 31% smaller than it would otherwise have been.

4.4 Strategic Responses

The unfavorable economic environment has forced companies to look for ways of staying in the market amid tough economic times. For them to survive, companies have been forced to come have with strategies which will enable them to stay in the market. With increased competition, companies have to come have with good strategies in response to the economic environment.

4.4.1 Marketing

Marketing is the process used to determine what products or services may be of interest to customers, and the strategy to use in sales, communications and business development. It generates the strategy that underlies sales techniques, business communication, and business developments. It is an integrated process through which companies build strong customer relationships and create value for their customers and for themselves.

Jubilee Insurance product development drive in short term and long term business continues through crop and livestock insurance; political violence, terrorism and sabotage covers; a retail medical product tailored for young families and retirement and education-based life insurance policies. Agriculture insurance covers are tailored on the basis of weather conditions, where farms are located, the size of the produce being insured, and the health history of animals, among other considerations. For this to happen, companies are utilizing developments in technology that enable real time transfer of information regarding changes in weather and how they affect crops and animal health. This has led to partnerships between insurance companies, financial institutions, farm input retailers, and mobile phone operators to enable payment of premiums and claims with ease. Unlike the generally expensive covers that have existed for commercial farmers, their small scale counterparts now pay as low as Sh5 for premiums. In case of drought or any other calamity that interferes with the farmers' produce, the company pays out the cost of either input or the value of the produce or animal; whichever the farmer chooses as the basis of his premiums. This is beneficial especially to small scale farmers who have one or two animals, or those who own small pieces of land from where they derive their income.

Jubilee Insurance also introduced a student accident cover. The micro-insurance segment has remained largely un-exploited due to lack of appropriate products, poverty and low levels of public awareness. The cover is among a number of micro-insurance products to hit the market lately as companies seek to increase their financial streams in an industry whose penetration remains at a dismal 2.84 per cent. The comprehensive student accident cover that will underwrite risks of children in primary and secondary schools, aged between three and 20 years, is expected to lift the performance of the industry, with just 6.8 per cent of the population having any kind of policy. Jubilee Insurance has seen the product as tailored to cover all types of accidents when students are travelling to school, in school and going back home.

The student accident cover will offer a solution, thus peace of mind to parents and learning institutions. For as little as Sh750 and Sh450 a year, parents will no longer have to worry about medical expenses arising while the child is at school. The figures seem modest but if just one million students are covered, that translates to between Sh450 million to Sh750 million per year. The cover has an upper limit of Sh500,000 and is meant to underwrite costs associated with road accidents while on school tours, student excursions and drowning, among others. Benefits include medical expenses following accidents, permanent disability, tuition of up to 16 weeks when the child is recuperating, artificial limbs, dental treatment and loss or damage of personal items. Children face a myriad of risks on the way to school, including road accidents, playground injuries and sudden illness. These result in unexpected medical expenses. Additional benefits include accidental death and funeral expenses.

2010 is a year in which Jubilee Insurance took advantage of the strong economic growth in the East African region, and initiated an aggressive regional expansion campaign. It launched subsidiaries in Burundi and Mauritius in 2010, and will be entering into new markets each year from now. By the year 2014, Jubilee expects to be in 14 markets in Africa. The regional expansion program is complimented by the strengthening of the branch network within existing markets. In 2011, eight agency offices were opened in the Rift Valley, western and central Kenya, and six agency offices in Dar es Salaam, Morogoro, Dodoma, Iringa, Tanga and Moshi. Jubilee Uganda doubled its Life agency force in 2010 and will open agency offices in Mbarara and Gulu in 2011. In 2010, Jubilee took advantage of the global economic upswing and strong economic growth in the East African region to initiate a selective market expansion campaign. Jubilee Insurance also launched subsidiaries in Burundi in September and Mauritius in November, as first steps in its plans to further expand its geographical presence across the Africa region.

Proponents of Bancassurance argue that banks are a good channel of selling insurance products because they have a good reputation thus they are more trusted. Banks also have vast customer data bases as opposed to insurance companies making it easy for them to reach more people by way of cross-selling bank products and insurance products. Another advantage is that banks have more advanced technology and capital resources as compared to insurance companies. Jubilee Insurance has taken this advantage and partnered with Banks like Kenya Commercial Bank, Diamond Trust Bank where it has an agreement with them such that it can be able to sell insurance products to the banks customers. Jubilee Insurance has employed two employees in each bank and are always stationed there to co-ordinated all the business activities. Some of the products Jubilee Insurance is able to sell through this channel are mainly General Insurance products which do not need any underwriting. This channel has helped Jubilee Insurance to increase its customer base, hence increasing its market share in the insurance industry.

4.4.2 Customer Service

Jubilee considers its customers very important and that their core insurance business contributes effectively to the group results and to enhance this Jubilee is making significant investments in new operating systems and customer service capabilities. Jubilee Insurance is also pleased with an equally impressive increase in its medical underwriting profits, a result of improved case management and claims service efficiency. Everyone knows what is meant by the "price" of a product. However, while product pricing is important, it is becoming less differentiated and more transparent within the market, thus making customer service much more important. At Jubilee, jubilee staff goes out of their way to make customers feel good about doing business with them. Jubilee ensures that it understands its customers' needs and go out of our way to meet them. The Formation of Customer Services Group (CSG) has been a major step the company took that was aimed at addressing the value Jubilee Insurance puts on her customers. The Customer Service Group (CSG) department was set up out of existing scenario in which business functions that relate to sales and marketing, technical underwriting, and policy administration, and Customer Service were co-mingled. The result of this was that Branch and Business Development Staff were saddled with managing non-premium producing activities. Thus, there is a lack of standardized processing and performance metrics related to customer service, resource or country efficiency are typically not measured or maintained outside of the standard financial indicators. Process improvement tends to occur only as a result of "special projects", since there is no clear methodology for promoting continuous improvement within the organization.

CSG was formed as a way of: Re-design business processes to free underwriters from administrative work, Create a Customer Service Group (CSG) to centralize operational functions and provide a single point of contact for customers. Create market-driven Client Management Groups (CMGs) which would focus on multi-line sales and marketing resulting in increased premium production. Ensure that Service Level Agreements (SLAs) are established between the CMGs and the CSG which would drive the priorities within the CSG. Focus on measuring and improving timeliness and quality and thereby increase customer satisfaction and retention rates. Integrate the service processing aspects of claims activities to improve Customer Service. Enhance the operational aspects of accounting functions to reduce handoffs and accelerate billing and collections. Easy setup of any branch or country operation without investing in a lot of resources. With the CSG department in place, all that any establishment needs to setup an offshore office is a CSG Front Office representative and business development executives. All the branches have what we call the CSG Front Office that serves all walk-in clients. Other forms of mail are handled by the CSG Back-Office. To ensure turn-around times are met, Jubilee Insurance Company has put in place a tracking mechanism that tracks the duration a walk in client takes to be served or the duration incoming mail takes to be resolved.

On a continuous basis, Jubilee Insurance monitors the turn-around times and makes process improvements that help our clients have an excellent customer experience in their every visit. Due to the excellent customer service given to its clientele as well as service providers, the company has seen a renewal rate of over 90 % for the last three years. It already has a 24-hour customer service call center backed up by more than 10 (qualified personnel among them clinical staff, claims assessors and underwriting personnel) drawn from the various business lines (General, Medical, Pensions and Life). The call center is also backed up by a strong IT system. All customer queries are handled within the set service level agreements. The line is also used to give counseling and advise to clients. This ensures that insured members get value for their money and this promotes insurance growth.

The effect of this has been the high client retention levels (of over 90%) as well as growth that the company has had. In Jubilee Insurance, there is a believe in timely resolution of client queries. It has an online monitoring system that tracks all incidents logged, the time it took to resolve and the general customer satisfaction pertaining to the service levels received. Jubilee Insurance ensures it achieves and exceed the set Turn-Around Times in all classes of insurance.

4.4.3 Information Technology

To ensure efficiency in General insurance underwriting, Life insurance underwriting, Claim processing and Accounting functions, all these functions are fully automated. The company's 24-hour call center is also backed up by a strong Information Technology system. The company uses an Integrated Insurance Platform that presents a 360-degree view of the business for all business lines. Jubilee Insurance has a local area network. This helps the business to handle its process electronically. Jubilee Local Area Network design is developed with redundancy to help in failover incase of any outages. This can be in form of hardware, configuration of power failure, this helps in business continuity plan.

Local Area Network speeds within servers and client machines is not less than 100 Mega Bit Per Second, in storage where there is data warehouse there is a speed of 1 terabyte. This helps in faster good service delivery to the clients mostly from customer service desk. Jubilee Network is in a hub and spoke topology. This is where remote branches get their resources from Head office. Remote branches are connected using Multi-Protocol Label Switching, which is a network layer three with connection that helps in ease of maintenance. This is implemented in Kisumu and Mombasa and Virtual Private Network connection being used in Burundi, Uganda and Tanzania. All this network engineering activity and maintenance is handled from the head office. Video, Teleconferencing and

Voice over Internet Protocol communications is a function that has been enabled between all the branches with jubilee family. Jubilee branches being under one Multi-Protocol Label Switching cloud has taken the advantage of Video, voice conference and Voice over Internet Protocol. This has extremely reduced cost in that is used to call a remote branch in Burundi without using an International Subscriber Trunk Dialing line but by just dialing an extension number to Burundi.

Jubilee has also set up intelligent LG flat screen monitors that are IP enabled. This has helped in the implementation of Video conferencing as all the branches operate as if they are on a Local Area Network. Security being a challenge in most organizations Jubilee does not allow personal computers or peripherals to be connected into the domain. This is a security hitch in that it can lead to spread of viruses and theft of information. Jubilee has put up security measures into place to help curb these acts. The company also recently launched MPESA and PESAPOINT which allows its policyholders to pay premium via their mobile phones and Automated Teller Machine. This is aimed at ensuring easy access to insurance coverage for its clientele.

4.4.4 Human Resources

Jubilee Insurance Company recognizes that its prime resource is its employees. It is upon their commitment and effort that the Company depends for its continued prosperity and growth. The overall HR goal is to consistently develop and deliver a high standard of HR service that adds value to the business and contributes significantly to the achievement of the Company's strategic plans and objectives.

The Company's Reward Policy/strategy is based on performance. It is the Company's policy, therefore, to continuously assess individual's performance and contribution to the achievement of Company's goals throughout the year. The Policy is based on the recognition of the importance of each individual's work and the necessity of continuous communication between employees and their supervisors.

The Head of Department accepts local performance of service quality targets for the year, derived from the business planning cascade process. The Head of Department shares these targets with employee, who is asked to prepare draft objects using Performance Appraisal form. The Managers reviews the draft for content, comprehensiveness and prioritization, makes necessary changes and sets individual objectives based on SMART principles. The Head of Department provides weighting to the objectives.

The Head of Department and employee sign off to agreed objectives on Annual Performance and both retain a copy. Manager also sends copies to the Head of Division and Head of Human Resources. Work cycle for an interim review of performance. Since this review is informal, the manager should document only the reasons why specific objectives could not be met, the plan established to overcome deficiencies, and the date that the review occurs.

There is no requirement to document in writing performance which meets or exceeds expectations at this interim review. The overall rating may be discussed, but does not need to be recorded or submitted to the Head of Human Resources. The interim review date will be documented on the Annual Performance Appraisal Form. Should any changes occur during the work cycle, which substantially alters the duties, responsibilities or expectations of the employees, the objectives should be rewritten or appended to reflect these changes. This enables employees aware of what is expected of them and hence perform their duties as expected without confusion resulting to high production.

To ensure that employees are healthy and productive, the Company has purchased Medical insurance cover for its employees and their dependents. All employees are eligible for cover upon confirmation of employment subject to defined age restrictions. Each eligible member is be placed within a category of the scheme depending on his /her job grade in the Company. Each employee is allowed to include his/her spouse and up to 4 of their children subject also to the defined age restrictions. Currently, the maximum age for new entrants to the scheme is 65 years while for renewing adult members the maximum age is 70 years. The minimum age for children is 6 months and the maximum age 23 years if still in college. Non-essential covers like Dental and Optical may also be provided to employees at the discretion of management. Treatment facilities available under the scheme (e.g. private doctors, executive rooms and others) depend on each member's category of cover. The Collective Bargaining Agreement (CBA) with Union representatives determines the design of the Union Scheme.

It is the policy of the Company to provide pension to retired employees. The objective of this benefit is to provide pension for employees upon retirement. It covers all permanent employees (excluding expatriate employees) and is subject to the terms and conditions of the Trust Deed and Rules. An employee joins the scheme upon successful completion of the probation period. The Employer contributes seven and half percent (7½%) of the employee's monthly salary and the employee also contributes seven and half percent (7½%) of monthly salary to the pension fund.

It is the policy of the Company to provide death-in-service benefits to employees. The objective for the provision of this group life policy is to provide a lump sum benefit to dependants of the employees on death. It covers all permanent service employees actively in the service of the Company. The Company has the right to admit into coverage such of its employees who are not in full time and permanent service. It is applicable on death-in-service entitlement as a lump sum amount equals the lower of three times the annual salary of the employee or the Insurer's Free cover Limit for employees who have not undergone medical testing prescribed by the Insurer. The benefit is payable on death of an employee upon production of proof satisfactory to the Insurer. The amount payable in respect of the employee is that accepted and communicated in writing by the insurer.

The objective of this Policy is: "To encourage and support employees to develop in current and towards future roles" To achieve this objective the Head of Human Resources together with the Heads of Divisions identifies, creates inventory and communicates to individuals the competencies required in their current and future roles. Provide and communicate a personal development plan, which will enable Managers and individuals to identify individual training and development needs. Encourage and enable management to identify, implement, and monitor the training and development plans for each individual.

The Company regards its employees as its most important asset and is committed to ensuring that all employees are trained to carry out their current jobs and are also equipped, in good time, to perform future roles. The Company's overall training and development objective is to: Provide the advice and necessary training opportunities to employees to enable them acquire the skills, knowledge and professional qualifications which are needed to perform their roles effectively. Identify, through effective performance review process, employees who show particular ability and potential to perform at higher levels in the organization, and to ensure that appropriate training and development opportunities are made available to them. Provide timely and relevant opportunities from an individual perspective. Link individual training and development needs to both current business needs as well as longer-term business plan. Provide training and development to meet business needs and as a means of enhancing skills for career progression.

For each examination passed (or section where it is a requirement to pass the whole section in order to proceed to the next), the Company will pay an employee a token of Kshs 2,000. Employees who qualify as associates (or its equivalent) will be paid a token of Kshs 10,000 and those who qualify as fellows will be paid a token of Kshs 20,000. Actuarial examination awards will be paid to actuarial employees as an increase in salary on passing an examination. For each complete and whole examination part actuarial employees will be awarded salary increase of KShs 7,500 per month. The KShs 7,500 per month will be pro-rated for portions of the whole part passed. A qualifying award of KShs 15,000 per month will be paid to actuarial employees on attaining the Fellowship designation.

4.4.5 Other Human Resource Initiatives

Other than the strategic responses chosen by the researcher, the respondents felt there were other Human resource initiatives used by Jubilee Insurance Company had used to motivate its employees.

It is the Company's policy to assist families of employees, who die in service, with funeral expenses. The Company provides a maximum of Kes. 50,000 to immediate relatives of the deceased employee (wife or husband only) on production of documentary evidence of relationship with the deceased Marriage Certificate. The sum set aside applies only to Management employees. The Company will also provide assistance to families of unionized employees who die whilst in service as spelt out in the Collective Bargaining Agreement (CBA).

As a responsible and compassionate employer, the Company tries to address the HIV/AIDS problem affecting the workforce, and to have a workforce that is able to deal with HIV/AIDS in the work environment. In addition to the threat HIV/AIDS poses to human welfare, the Company recognizes that HIV/AIDS is a work environment issue and should be addressed like any other seriousillness/condition in the work environment because it threatens human capital, productivity, profitability, sustainability, progress and the welfare of the entire workforce, the very essence of an organization's success. This recognition is necessary not only because HIV/AIDS affects theworkforce, but also because the work environment, being part of the local community, has a role to play in the wider struggle to limit the spread and effects of the epidemic.

The Company adheres to non-discriminatory practices that reflect the policy that employees are recruited and assessed solely on merit and ability to perform. In the spirit of respect for human rights and the dignity of persons, the Company will not discriminate on the basis of real or perceived HIV status of individuals, and will consider each person in the same manner as one would approach any person with a progressive or debilitating illness. The Company will make every reasonable effort to accommodate the needs of people living with HIV/AIDS within the limits of what is practical in any given situation. Discrimination or harassment towards someone because of his/her HIV status will be considered a disciplinary offence. The Company recognizes the gender dimensions of HIV/AIDS. Taking into account existing local legal prescriptions as well as cultural sensitivities, HIV/AIDS strategies for the work environment will be developed with due attention for the gender perspective.

The Company is committed to taking all reasonable measures to ensure a safe and healthy working environment including the application of Universal Precautions. The Company takes appropriate action to safeguard the workplace. The Company takes additional measures to ensure that the workforce is trained in and observes Universal Precautions, and that it is knowledgeable about procedures to be followed in the event of an occupational accident or injury. Members of the workforce will accept responsibility to protect themselves and others, to manage illnesses and not to endanger others. Management will undertake to establish, monitor and control a safe work environment, within the limits of reasonable practicality.

To ensure the successful implementation of the HIV/AIDS policy in the work environment, the Company commits itself to establishing an enabling environment that fosters co-operation and trust between employers and employees; this action includes the active involvement of employees and family members infected and affected by HIV/AIDS. No member of the workforce is required to undergo HIV-screening for purposes of employment, promotion, training or any other work related activity. All HIV-screening will be totally voluntary and will be supported by appropriate voluntary counselling and testing (VCT) services. All members of the workforce and their families will be encouraged to undertake VCT.

If an HIV test is required by a third party contracted by the Company, e.g. for insurance purposes, members of the workforce have the right to decide whether or not to undergo such a test. Their decision will not affect their employment status but may affect the level of coverage/benefits as per the terms and conditions set by the third party. Potential new members of the workforce are not required to disclose their HIV status; however, such disclosure will be generally encouraged for all members of staff. Co-workers are not obliged to reveal any personal information they may have concerning co-workers. Confidentiality is maintained in respect of all medical information of an employee, including his/her HIV status. Access to personal data relating to a person's HIV status are bound by the rules of confidentiality consistent with the International Labour Ogomization's code of practice on the protection of workers' personal data. If confidential information needs to be shared with other persons in the Company (such as line managers) the employee must give written consent, and should have a clear understanding of how and for what purposes the information will be used. Disciplinary procedures will be invoked, as per the HR Policy guidelines, if confidentiality is violated in any way. The HIV status of an employee cannot cause for termination of employment. As with any other chronic or life-threatening condition, a person with an HIV-related illness is allowed to work for as long as he/she is medically fit to perform assigned duties as per his or her position. Where possible and necessary in terms of the medical condition of a member of the workforce, appropriate, alternative duties will be assigned to him/her. An employee with an HIV-related condition has access to the same medical benefits as any other member of the workforce.

To raise awareness on HIV/AIDS and to facilitate behavioural change, the Company has ensured the effective implementation of a sustained HIV/AIDS information, education and prevention programme taking into account local, cultural assumptions and traditions. Information and education is provided through various forms, including through the implementation of the AIDS Competence methodology. Information and education interventions are not rely only on the written word, and would include various modes of delivery. Information and education programmes is rooted in the culture and dynamics of Kenya and East Africa, and content is adapted to ensure it is appropriate and effective, and in agreement with local existing norms and laws. Information and education programmes are developed in consultation with all stakeholders and members of the workforce to ensure full participation of all concerned.

Programmes are tailored to the age, gender, and behavioural risks of the workforce. Within the limits set by the relevant medical assistance scheme, employment contract and assignment conditions, as well as the constraints imposed by the local environment, the Company facilitates medical treatment and care to all employees infected with HIV/AIDS. As an additional specific medical benefit, the Company endeavors to ensure provision of ART to all its employees on contracts of 12 months or more including open-ended contracts. The Company strives to fund ART for up to twelve months after the employee leaves service, either directly or through third party schemes. The Company strives to incorporate HIV/AIDS care and treatment in medical insurance scheme for employees and up to 4 dependants (spouse and children up to the age of 18). Employees who are prevented from performing their duties due to HIV/AIDS are subject to the Company's local sick leave procedures.

4.5 Other Strategic Responses

Other than the strategic responses chosen by the researcher, the respondents felt there were other strategic responses which Jubilee Insurance Company had used to address the Economic environment and changes in the Insurance Industry in Kenya.

4.5.1 Financial Performance

The company has maintained the number one position in the Gross Written Premium for more than three (3) years, with over 10% market share. Whereas the whole industry made an underwriting loss of Kshs. 235.8 million in 2009, the company still remained profitable thus eliminating the myth that Medical Insurance business is always loss making. The company also made profits in 2008 when the other players were making losses. The company uses actuarially tested models that ensure that the underwriting process is properly done. Due to its financial power customers see Jubilee Insurance as a company where their investments are save hence encouraging many customers to invest with it.

4.5.2 Claims Settlement

The accounts for the various providers have been cleared up to end of 2009 including 2010. This ensures that insured members get value for their money and promotes insurance growth. The claims processing section consists of over 60 qualified staff (with over 7 clinical and insurance staff) that ensure that the claims are processed in a timely manner and as per the set guidelines. This is a clear testimony that insurance companies need not only collect premiums, but also need to pay for the claims that meet the policy conditions in time. This helps eliminate the traditional notion that insurance companies do not pay claims.

The company's claims payment turn-around-time is also the best in the market. It takes an average of five (5) days to settle a claim. This is an assurance to customers that incase of any calamity, then they can count on Jubilee Insurance on settling their claims, hence this keeps the customer assured in case of any risk happening. This has brought in many customers to take insurance covers with Jubilee Insurance Company. A good example is like when one of Jubilee Insurance client's premises caught fire and all premises was burned down together with all the products inside. Jubilee Insurance Company compensated the client within one month by paying the client approximately over three hundred million and the client was back to business as usual. Hence claim settlement is a key strategy to use where the Insurance Industry in known for failing to owner its promises.

CHAPTER FIVE : SUMMARY, CONCLUSION AND RECCOMENDATIONS

5.1 Introduction

This chapter summarizes and discusses the findings in relation to the statement of the problem and the objectives of the study. It also highlights the limitation of the study and suggests for further research.

5.2 Summary of Findings

There have seen many changes in the economic environment. These changes have had an unfavorable impact on the operation of Jubilee Insurance Company. They include poor economic conditions such as high inflation rate, unemployment, high interest rates, and hostile economic.

Jubilee Insurance Company has responded to economic environment and changes in the Insurance Industry in Kenya through such initiatives as new product development, entering new markets, excellent customer services, well-motivated employees and class of art of Information technology systems. However the study indicates that there is still the need for more strategic actions that need to be undertaken by jubilee Insurance Company in order to enable the company to fully match the changes in the economic environment in which it operates. Furthermore the study also established that Jubilee Insurance Company possesses the necessary capability to adapt the strategies that would facilitate effective responses to the Economic Environment and changes in the Insurance Industry in Kenya.

5.3 Conclusion

It is evident from the research findings that Jubilee Insurance has positioned itself well on how to deal with economic environment and changes in the insurance industry in Kenya which pose major challenges. These challenges are due to the changes in the business environment in terms of high inflation rate, unemployment, and high interest rates, legislative and hostile economic policies. The study established that Jubilee Insurance Company responded to economic environment and changes in the insurance industry in Kenya through strategic choices which include: new product development, entering new markets, improved customer services, employees' motivation and adoption of state of art of Information technology systems.

5.4 Recommendations

The recommendations are based on the findings of how Jubilee Insurance has dealt with challenges posed by economic environment and changes in the insurance industry in Kenya. It mainly touches on other ways Jubilee Insurance Company can adopt in order to gain a more competitive edge in the market. Most of the insurance products currently being sold in Kenya are the protection type endowment and funeral expense policies. However the volatile economic environment requires products which are inflation indexed as well as unit linked products where the insured shares the investment risk with the insurance company, hence the Company should introduce such kind of products. Jubilee Insurance Company should take more advantage of the new channels for distribution of products such as bancassurance and the internet where many insurance companies have not tapped in. Advertising, sales promotion, public relations and other awareness building programmes should be undertaken by Jubilee Insurance Company to improve its image. Jubilee Insurance should also take advantage of the liberalization and the development of COMESA and the East Africa Community and exploit the emerging opportunities by diversifying its operations outside Kenya. Jubilee Insurance Company should also focus more on new internet based form of marketing like using social networks like Facebook, Twitter and other so that they can reach a wide range of customers. This will enable many people become aware of what kind of products are being offered. Jubilee Insurance Company is a combination of people and technology.

The motivation, intellect, skills and experience, creativity and management talents of employees ranging from senior executives to front line workers are what matters in determining the company's success. These individuals working in coordination with each other are the factors creating value and resulting profitability for Jubilee Insurance Company. Jubilee Insurance needs to invest more resources in training and development of its tied agents. It should also align the interests of the employees and the management with those of stakeholders such that the employees are not looked down upon when it comes to sharing profits made by the company. Information Technology is driving business across all industries. It offers considerable scope for operations efficiency in terms of cost, saving and improvement in the quality of service. Jubilee Insurance should deepen the utilization of information Technology in its business process.

Centralization of its IT operations will help it cut on costs of hardware and improve its operations. This will be made possible if it implements a good Data Centre facility. Jubilee Insurance Company should also provide a web based system were clients can be able log in their queries and issues online instead of them calling customer desk where their calls may not be attended due to a lot of traffic. By doing this, clients will be able to get a solution to their queries online.

5.6 Limitation of the Study

The study focused on four main strategic responses. However, there might have been other strategic responses which could have been undertaken by Jubilee Insurance in addressing the changing economic environment. Interviewees may not have been comfortable giving all information; this is because they might have thought it could easily leak to their competitors. Hence they might have held on some important information which could have been useful to the study. In addition the time available for the study was short. This constrained the scope as well as the depth of the research. Lastly this was a case study; hence the research findings cannot be used to make generalization on the Insurance Industry in Kenya.

5.7 Suggestion for further Study

This study was based on four major strategic response variables. A further study can, therefore, be carried out on the other responses that Jubilee Insurance Company has adopted in order to address the economic environment and changes in the insurance industry in Kenya. Alternatively, a cross-sectional survey covering the whole industry can be undertaken to determine the strategic responses by the other players in the insurance industry. This would give an indication of the responses made by insurance companies to economic environment and changes in the insurance industry in Kenya. This then will allow for industry generalizations to be made.

5.8 Implication on Policy, Theory and Practice

The government is a major stakeholder in Insurance industry because of its role in defining the legal framework to guide and regulate the conduct of business. The government also plays a key role public policy formulation and implementation. Also the government and other institutions involved in the country's policy formulation cannot overlook insurance sector as one of the contributors to the country's Gross Domestic Product. The findings from this study are therefore of importance because they provide the capacity of being used to formulate positive economic policies which are relevant and sensitive to the forces influencing the insurance sector performance in Kenya. Realization that Financial Services is one of the highly competitive business sectors globally calls for players to adopt properly formulated strategic responses for success.

To Jubilee Insurance Company and other insurance industry players in the country, this study findings is of great importance because it will assist them in choosing the best ways in dealing with threats posed by the economic factors and changes in the Insurance Industry in Kenya. Through it, it will assist Jubilee Insurance Company to position and to gauge its performance and make improvements where necessary to boost its market performance and overall ranking in the industry.

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APPENDICES

Appendix1: INTERVIEW GUIDE

This Interview Guide seeks to identify the various Economic factors that have favourably or unfavourably affected the running of Jubilee Insurance Company limited in its operations and the kind of strategic responses which it has employed in order to survive in the Insurance industry in Kenya.

SECTION A

1. Respondent's Job Title in the Company_______________________________
2. Respondent's Department/Section_________________________________
3. Length of service with jubilee insurance_____________________________

SECTION B: ECONOMIC ENVIRONMENT

Under each of the following economic factors, please describe the major economic conditions, economic policies and economic legislations factors which in your opinion have affected the operations of Jubilee Insurance Company in the Insurance industry in Kenya.

a. Economic conditions
b. Economic policies
c. Economic legislations
d. Other economic factors

SECTION C: STRATEGIC RESPONSES

1. Marketing

(a) New Products

(i) Which new products or new features to the existing products has Jubilee Insurance Company introduced in the last five years?

(ii) What were the objectives of the introduction of the new products or new features to the existing products?

(b) New Markets

(i) Which new branches has Jubilee Insurance Company opened in the last five years?

(ii) What were the objectives of opening the new branches?

(iii) Which countries has Jubilee Insurance Company entered in the last five years?

(iv) What were the objectives of entering the new countries?

Distribution Channels

(i) Which new distribution channels has Jubilee Insurance Company introduced in the last five years?

(ii) What were the objectives of introduction of the new distribution channels?

2. Customer Service

(i) How has Jubilee Insurance Company responded to the increased demand for better customer services?

3. Information Technology

(i) Describe how Jubilee Insurance Company has integrated IT in its operations?

(ii) What were the objectives of IT integration in operations?

4. Human Resources

(a) Briefly describe the human resources management initiatives in response to the present dynamics of human capital at Jubilee Insurance Company. You can summarize your views under the following sub topics

(i) Performance management of employee,

(ii) Staff retention policies,

(iii) Training and development,

(iv) Other human resource initiatives.

6. Other Strategic Responses

(i) What other strategic responses has Jubilee Insurance Company employed in addressing the Economic Environment and changes in the Insurance Industry in Kenya?

Thank you very much for your responses

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Nairobi, Kenya

DATE 19/07/2011

TO WHOM IT MAY CONCERN

The bearer of this letter NJAMA PATRICK MUTISYA

Registration No: D61/71634/2007

is a Master of Business Administration (MBA) student of the University of Nairobi.

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

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

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM

Appendix3: ACCEPTANCE LETTER

Jubilee
INSURANCE

OUR REF: JUB-D61/71634/2007
DATE: 26/08/2011

TO WHO IT MAY CONCERN

This is to confirm that NYAMAI PATRICK MUTISYA Registration Number D61/71634/2007 presented a letter from the University of Nairobi requesting to be allowed to collect data from our organization to be used in his research for his project paper in his MBA Programme.

We are pleased to inform you that we allowed him to go on with his data collection because we feel his study may in one way or the other help the Company in general in dealing with the uncertainties posed by economic factors which are seriously affecting the Insurance Industry in which Jubilee Insurance Company operates.

Thank you

THE JUBILEE INSURANCE Co. OF KENYA LTD. P.O. Box 30376 00100 GPO NAIROBI

Tazmin Alibhai

Group Head of Human Resources.

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