EXTERNAL ENVIRONMENTAL CHALLENGES AFFECTING THE PERFORMANCE OF HEALTH INSURANCE SUB SECTOR IN KENYA

BY

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DECLARATION

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

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DEDICATION

I dedicate this project to my beloved fiancé Sylvester Nzioka, for the invaluable support, love and encouragement.

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ABSTRACT

The health insurance also known as medical insurance aims at protecting the insured against financial constraints arising on account of a medical emergency, either illness or an accident. This study was set to determine the external environmental challenges affecting the performance of health insurance sub sector in Kenya.

The study was conducted on the sixteen insurance companies dealing with health insurance. Data was collected using questionnaires which were delivered to insurance companies targeting underwriting and claims managers. Some questionnaires were emailed to the specific managers in the different companies to the convenient of the respondents. The results were analyzed and the mean and standard deviation of the factors affecting the performance of the organizations obtained. Correlation analysis was used to determine the strength of association between the factors affecting the organizations and the performance.

The findings from the study indicate that there are several environmental challenges affecting the performance of health insurance sub-sector in Kenya which include political factors, economic factors, social factors, and technological factors. The findings of this study are important because they will assist in developing policies and strategies that will ensure that health insurance is profitable in Kenya. This include as identified in the study involvement of the insurance regulatory institutions in Kenya in formulating policies and regulatory framework, responding efficiently to customers' needs, developing affordable products, encouraging healthy eating to mitigate the lifestyle disease , creating new and attractive products, and creating more awareness on the medical insurance and the benefits.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Business environment comprises of various internal and external forces under which the organization operates. It plays a very crucial role in the business. It shapes the ability of the organization to maintain successful relationships with its customers. Successful firms know the importance of constantly watching and adapting to the changes in the business environment (Kotler, 2000). Survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy.

The health insurance subsector in Kenya is on its death bed. In 2009 for instance, medical insurers earned net premium of Sh5 billion but paid claims of Sh4 billion and another Sh1.2 billion in administration expenses leading to a loss of Sh235 million. Comparatively, the other classes of insurance made a combined profit before tax of Ksh7 billion. Out of the 16 medical insurance companies in Kenya, only six made underwriting profit in 2009 (AKI). In 2010 the situation deteriorated since out of the 16 insurance companies offering health insurance, only 5 made a profit, and combined the sub sector made a loss of Sh530 million. It is against this background that this study seeks to determine the challenges that are facing the performance of health insurance sub sector in Kenya.

1.1.1 Environment and Organizations

The term external environment is based on the definition by Morris and Jones (1994) and is used to refer to everything outside the organization, and includes technological, economic, legal/regulatory, customer, competition, supplier, distributor and social dimensions. The external environment of firms can increasingly be characterized as dynamic, threatening and complex

(Handy, 1989). To ensure survival and success, firms need to develop capabilities to manage threats and exploit emerging opportunities promptly. This is because organizations are dependent on the environment for resources and also depends on the environment to discharge their outputs.

Each organization must find what strategic responses to adopt in order to survive and succeed in the environment. Peters and Watermann (1982) assert that innovative companies continually respond to change of any sort in their environment. When the environment in which they operate changes these companies change too. As the needs of their customers shift, the skills of their competitors improve and government regulations shift, these companies adjust appropriately. A firm's performance is optimum when the aggressiveness of the firm's strategic behavior matches environment turbulence, responsiveness of the firm's capability matches the aggressiveness of its strategy and the components of the firm's capability support each other.

Health Insurance companies in Kenya are faced by several challenges that make their operation in the Kenyan market not so easy. These challenges are dependent on the people, the status of the market, laws governing insurance in Kenya and the lack of proper information about insurance. These include adverse selection, moral hazard, cost escalation due to inflation, unhealthy competition among the players, fraud and dishonesty among others.

This particular piece of research is the latest in a series that over the years has identified the top issues facing the sub sector and probably how leading players are dealing with these challenges on the road towards high performance. And as always, none of the top issues exists in isolation: They form a network of inter-related challenges, and market players should address them all.

1.1.2 The Healthcare Sector in Kenya

Delivery of health services in Kenya is financed through two broad categories, the public and private sectors. The public sector accounts for about 45% of total healthcare expenditure. However the declining quality and unavailability of public healthcare has created a demand for

private healthcare services and hence for private insurance schemes that finance healthcare. (Lengopito, 2004).

Kenya spent 5.1% of its Gross Domestic Product (GDP) on healthcare in 2002. This was well below the high-income OECD (Organization for Economic Cooperation and Development) countries' average of 9.8% for the same period. Total health spending stands at about US$6.2 per capita, far short of the World Health Organisation's (WHO) recommended level of US$34 per capita (Journal of Public health policy).

Provision of health services countrywide is still grossly inadequate. In addition, the health system suffers from inequitable spatial distribution of health services; shortages of health personnel; poor management of health services; inadequate funding; lack of medical supplies; low level of hospital operational efficiency; and lack of proper public health information and education (Government of Kenya, 1989; 1994). Health services are provided through a network of over 4,700 health facilities countrywide, with the public sector system accounting for about 51% of these facilities. The best quality of care is found at national referral hospitals, which represent the apex of the healthcare system and provide diagnostic, therapeutic and rehabilitative services.

Many people in Kenya lack access to basic health and adequate nutrition. Among those Kenyans who are ill and do not choose to seek care, 44% were hindered by cost. Another 18% were hindered by the long distance to the nearest health facility. A quarter of Kenyan households are located more than 8 kilometers from any form of health facility. There are also inadequate medical supplies, which is occasioned by poor administration and distribution procedures and general inefficiency in the central procurement system. The inadequacy of medical supplies in public health facilities is partly due to changes in macroeconomic situations, procurement decisions, poor institutional set-ups, decline in donor support, and corruption.

One of the goals of the Government of Kenya is to promote and improve the health status of all Kenyans by making health services more effective, accessible and affordable. Therefore, health

policy in the country revolves around two issues, namely: how to deliver a basic package of quality health services, and how to finance and manage those services in a way that guarantees their availability, accessibility and affordability to those in most need of healthcare.

Recently, we have seen the government of Kenya invite companies to bid for a medical and life insurance scheme for the civil servants and the disciplinary forces. The scheme will ease family spending on healthcare and funeral expenses as well as provide life insurance benefits. It is part of government efforts to improve the welfare of civil servants as it seeks to attract and retain top talent. (Business Daily, Thursday, August11, 2011)

1.1.3 The Health Insurance sub sector in Kenya

The insurance industry is governed by the Insurance Act and regulated by the Insurance Regulatory Authority .There are 44 licensed insurance companies for the year 2011 (IRA Public notice). Twenty companies write non-life insurance business only, nine write life insurance business only while fifteen are composite (both life and non life). 16 general insurance firms have healthcare insurance as one of the offerings in their portfolio (AKI).

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.

Health insurance in Kenya is provided by both private and public systems. The main objective of the health systems has been to insure Kenyans against health risks that they may encounter in future. It's considered private when the third party (insurer) is a profit organisation (Republic of Kenya, 2003a). In private insurance, people pay premiums related to the expected cost of

providing services to them. Therefore, people who are in high health risk groups pay more, and those at low risk pay less.

Wang'ombe *et al* (1994) identify two categories of private health insurance in Kenya: direct private health insurance and, employment based insurance. Direct private health insurance is very expensive and only the middle and high-income groups afford it (Nderitu, 2002). In the employment-based plans, the employer provides care directly through employer-owned on site health facility, or through employer contracts with health facilities or healthcare organisations. These are both voluntary health schemes and are not legislated by the government.

There are 16 general insurance firms offering healthcare insurance in their portfolio. Other firms run medical schemes as their sole business and they are in two categories: the first category provides healthcare through own clinics and hospitals (these include AAR Health Services, Avenue Healthcare Ltd and Clinix Ltd), while the other category provides healthcare through third party facilities (Bupa International,). These medical schemes are also known as Health Management Organizations (HMOs).

Unless development of health insurance is managed well it may have negative impact on health care especially to a large segment of population in the country. If it is well managed then it can improve access to care and health status in the country very rapidly.

1.2 Research problem

Organizations exist in a complex commercial, economic, legal, demographic, technological, political and social environment. This environment is under constant change which affects the organizations that operates within it. According to Kotler, 2000 successful firms know the importance of constantly watching and adapting to the changes in the business environment Organizations therefore have to align themselves well so as to cope with the ever changing environment. This will involve the assessment of a firm's internal capability and how it is

equipped to adapt and survive in the industry within which it operates. Strategy is vital to the adaptation of the changing business environment.

Health insurance companies like all other organizations are environmental serving (Ansoff, 1984). They depend on the external environment for their survival. They have to understand requirements of the environment and adapt to them. Health insurance is complex because of conflicts arising out of adverse selection, moral hazard, administrative burdens and information gap problems. Kenyans are among the least health insured in the world. Despite the heavy investments by insurance companies in infrastructure, operations efficiency, marketing, product development, diversification and Information Technology, medical insurers continue to post poor results.

Some studies have been carried out on health insurance in the recent past. Mwaura, 2009 did a study on Viability of accessing health insurance to the urban poor through community based organizations, which does not address the issue of the challenges facing the performance of health insurance. Mavalankar and Bhat, 2000 did a study on opportunities, challenges and concerns facing health insurance in India, which is of a different context with Kenya. It is against this background that this study seeks to determine the external environmental challenges affecting the performance of health insurance sub sector in Kenya. This study will therefore seek to answer the question: what are the external environmental challenges affecting the performance of health insurance subsector in Kenya?

1.3 Research Objective

To determine the external environmental challenges affecting the performance of health insurance sub sector in Kenya.

1.4 Value of the Study

To insurance companies, the study will be useful since it will help them in the understanding of the challenges facing the performance of health insurance therefore assisting them in proper underwriting of health insurance risks and managing the external challenges and also in coming up with measures to assist them in increasing the penetration and profitability.

To government, it will create awareness on the policy instruments that need to be designed to promote the development and performance of health insurance in Kenya. It will provide the necessary information needed in formulation of sound legal and regulatory framework for better performance of the health insurance subsector in Kenya.

The findings of this study will enhance the knowledge that educationists have on health insurance and add-up to the literature on health insurance to the academicians and expose the gaps for further research. The scholars will use this study as a basis for discussion on responsive strategies adopted by the industry players in the insurance subsector in Kenya. The study would be a source of reference material for future researchers on other related topics. It would also help other academicians who undertake the same topic in their studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars and authors. The materials are drawn from several sources which are related to the study objectives.

2.2 Environment and organizations

The external environment plays a significant role in the growth and profitability of firms (Kotha, 1995) .The character of environment the firm faces is importantly shaped by interdependencies and transactions that occur entirely outside the domain and realm of influence of the organization. According to Kiruthi, (2001), all organizations must grapple with challenges of the changing environment in which they operate in order to remain competitive in the market.

Pearce and Robinson (1997) argue that there are a host of external factors that influence a firm's choice of direction and action and ultimately its organizational structure and internal processes. These factors constitute the external environment and can be divided into three interrelated subcategories that is the remote environment, the industry environment and the operating environment. The remote environment consist of factors that originate beyond and usually irrespective of any firms operating situation and include economic, social, political, technological and ecological factors.

Changes in the environment create pressure for change in the affected organizations. These organizations must adapt their internal operations to reflect the new external realities (Ansoff, 1984). Porter (1985) argues that firms that do not adapt to keep pace with the changing environment are likely to suffer and become irrelevant. The external environment of

organizations has been described as turbulent over time changing constantly and in a discontinuous way.

Health insurance companies like all other organizations are environmental serving (Ansoff, 1984). They depend on the external environment for their survival. They have to understand requirements of the environment and adapt to them. Those that do not respond or respond inappropriately will not be able to survive. Others might just survive without making any profits.

2.3 Organization performance

Performance in organizations is most commonly understood to mean system outputs. Every business feeds inputs such as raw materials, people or resources and transforms them into finished goods or services that have the aim of satisfying the consumer for whom they are intended (Ingram, 1996). Organization performance may be characterized by the twin components of efficiency and effectiveness. Drucker (1977) differentiates between the two by suggesting that efficiency is concerned with doing things right, describing organizational inputs and what people do. Effectiveness is concerned with doing the right things and relates to the outputs of the job, and what people actually achieve.

Because performance is a manifestation of organizational success, the extent to which it is being achieved needs to be continually monitored so as to modify strategy if necessary. Kaplan and Norton (1992) present an even-handed framework for analyzing performance through the balanced scorecard as shown in Figure 1. They suggest that current performance measures are inadequate to reflect accurately both the financial and operating domains of the business. A balanced score card allows managers to look at the business from four perspectives; financial, customer, internal business, innovation and learning. The search for market dominance and above-average profitability should be based on a balanced perspective of customers and competitors.

The four perspectives of the balanced scorecard

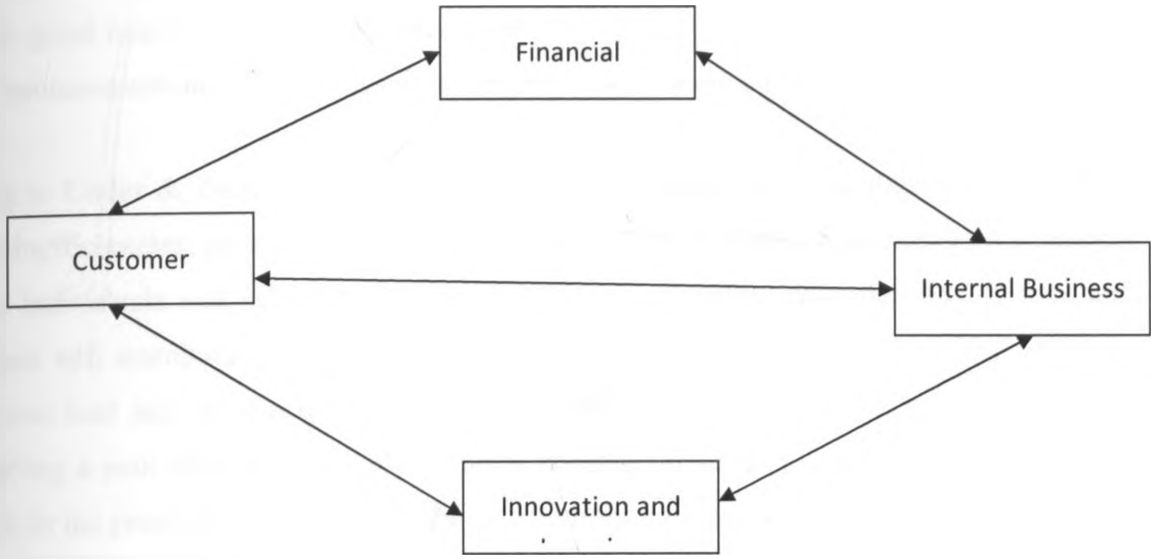

Figure2.2.1: Kaplan & Norton (1992)

2.4 Key Environmental Challenges Facing the Performance of Health Insurance

Health insurance is complex and there are serious market-failure problems. In any market-driven system, what should be produced, how it should be produced and for whom it should be produced are determined by market forces. Competitive environments take care that resources are used efficiently (at lowest cost) and effectively (with optimum outcomes).However, because of various demand and supply side imperfections, there are inherent problems in health insurance markets. Important constraints on insurance contracts are: Moral hazard; adverse selection; covariate risks and information problems (Burgess and Stern, 1991). Others include dishonesty and fraud in the market; lack of regulatory framework; cost escalation and inflation; lack of affordability.

The works of Akerlof (1970), Spence (1973) and Stiglitz (1975) have pioneered the concept of adverse selection problem. Adverse selection arises when persons belonging to high risk groups seek coverage and the insurer cannot identify the risk. All policyholders are required to pay the same premium, whereas those belonging to higher risk groups are likely to consume higher than the average quantity of services; they will also find the insurance policy more attractive and those with good health will find insurance premium too high. Less and less good cases will enroll in insurance scheme and, as a result the insurer finds having a pool of more risk cases.

According to Cutler & Zeckhauser (1997), adverse selection has the potential to lead to three classes of inefficiencies; prices to participants will not reflect marginal costs, hence on a benefit-cost basis individuals will select the wrong health plans; desirable risk spreading is lost; and health plans will manipulate their offerings to deter the sick and attract the healthy. Adverse selection can lead any insurance plan to be unprofitable and eventually fail as a result of the insurer having a pool of more risky cases. This is because the insurer is unable to allow for this correlation in the price of insurance since the private information is known only to the individual or due to regulatory adverse selection whereby the regulations prevent the insurer from using certain categories of known information to set prices.

Adverse selection occurs because insurers have less information about an individual's health status than the individual. To protect themselves from this unknown risk, they will tend to set insurance premiums higher. In voluntary markets, this will result in healthier individuals not buying health coverage because their cost will be higher than the potential benefits.Sickler individuals will still choose to buy insurance resulting in a higher than expected average level of risk in the insurance pool. At the extreme, adverse selection can lead to the collapse of the insurance market (Cutler and Reber, 1998) .It also raises ethical and moral questions which has been an ever present fact in the insurance world, because only one party (insured) to an insurance transaction has the more relevant information than the other party who accepts the risk who is the insurance company (Dorfman, 2005).

Moral hazard problem arises because policyholders would like to take decisions and actions which maximize their own benefit and do not want to bear the full cost. The seminal works of Arrow (1963) and Pauly (1968) who proposed the moral hazard problem in medical care suggest that the policyholder does not consider the insurer's costs. Unregulated healthcare markets and private insurance encourage this behavior since insurance lowers or avoids the cost of treatment at the point of treatment: consumers tend to demand more (consumer moral hazard). Providers have an incentive to render more or unnecessary care than might be medically appropriate (provider moral hazard).To combat this problem, most insurance companies use mechanisms and conditionalities which in the end only create a burden on policyholders with the part of cost (Sonderstrom, 1997). Some of the mechanisms insurance companies have adopted are co-payments or co-insurance, deductibles or a reduced premium bonus for the future. Another possibility of coping with moral hazard is to arrange special contracts (Jutting, 1999)

(Sekhri & Savedoff, 2004) states that the problem of moral hazard is compounded because it can also be practiced by doctors who may over-prescribe medications or order unnecessary services, knowing that the insurer and not the patient will be paying. This provider-induced demand decreases the affordability of coverage and dampens insurance demand. Concerns with this problem include rising costs due to increased demand for medical care (for those with insurance) and consequently unnecessarily high claim rates. Insurance companies assess the health insurance portfolio as a low-profit-business line because of the moral hazard phenomenon (Mwaura, 2009).

The basic objective of any insurance mechanism is to protect individuals from risk. In most situations, the insurer helps in protecting policyholders from unique health risks and it is expected that these risks are not related to others in the insurance pool (Jutting, 1999). However, if covariate or collective risks, possible risks that would cause damage to many or even to all members of the pool at the same time occur, there is nothing to be gained by cooperation (Sonderstrom, 1997). The stronger the degree of positive covariance, the higher will be the cost, whereas negatively correlated risks will have the effect of reducing the total cost of risk-bearing. High incidence and prevalence of communicable diseases in a community can give rise to high

covariate risks. If all policyholders face similar risks, risks cannot be reduced much through having insurance (Jutting, 1999).

A commonly cited reason for the low demand for health insurance in developing countries is the limited understanding of its benefits (Ndungu, 2010). Insurance is often perceived as a nonviable investment because premiums are collected every year but indemnities are paid much less frequently. Policy exclusions and coverage limitations are often a source of confusion. Thus, potential buyers, even educated ones, sometimes prefer to retain risk than trust a third party like an insurance company. Low-income households think they do not require insurance .This is probably due to lack of confidence in insurers and poor understanding of the risk-pooling concept. Many people do not understand the concept of insurance and how it works. In some cases, the views of poor people about insurance are negative. They see it as the reserve for the rich: something that is irrelevant, too expensive or even unfair (Cohen and Sebastad,2005).

Health care fraud is committed when someone intentionally submits, or causes someone else to submit, false or misleading information for use in determining the amount of health care benefits payable. Health care fraud could be committed by dishonest health care providers such as physicians, dentists, labs, and medical suppliers or by plan members themselves. It is estimated that losses due to business fraud add $100 billion to the annual cost of health care in the United States, (Sekhri & Savedoff, 2004) .For most employers, fraud increases the cost of providing benefits to their employees and, therefore their overall cost of doing business. That translates into higher premiums and out- of- pocket expenses as well as reduced benefits or coverage. Fraud can also impact the quality of care you receive. When dishonest providers put greed ahead of care, proper diagnosis and treatment may be ignored and patients may be put at risk solely to generate higher claims.

Mitchell & Fields, (1996) contend that the establishment of a dynamic insurance industry is in part the responsibility of legislators and supervisors. It is their role to set the enabling environment for the healthy development of the insurance industry and to deal with the incidence of market failures and imperfections. A well performing insurance industry is not only benefiting

consumers but also the economy and improvement as a whole through better protection of the existing and future wealth of the country, the availability of more investments into the local economy and improvement of State finances through higher tax incomes directly or indirectly derived from the increased performance of the insurance sector.

Organizational performance is synonymous with economic results because profits are needed for firms to continue in business (Ingram, 1996). In the current environment, many organizations are concerned with profit and return on investments, and formulating a strategy which will achieve economic performance. Strategic planning leads to an increase in profit and thus managers need a thorough understanding of what drives the organization's costs in their attempts to plan for performance improvement.

The changes in the economic environment have led to Kenyans having less purchasing power due to increased inflation and cost of living. Most Kenyans cannot afford medical insurance as they would rather use this money to purchase food or educate their children. Kenyan top hospitals have increased their charges by up to 40 per cent in the past four months, citing the rising cost of operations, placing medical costs among the key drivers of the country's runaway inflation, which is at the 15.53 per cent mark. (Daily Nation, August 15, 2011).

The steep rise in the cost of medical services is piling pressure on insurance premiums with demands that consumers pay more to access services they have been enjoying at lower prices. Continual upward pressure on health care costs leads to parallel increases in the cost of health insurance. Since health premiums can only be reviewed on renewal to absorb the price increases by providers, the health insurance companies end up making losses since they are forced to bear the immediate costs and wait to review their costs until the contract with their clients expires at the end of the policy period.

Ingram (1996) observes that in the search for value, customers compare prices and quality against the offerings of competitors. In the same way, firms benchmark their own performance and that of others in order to improve quality. Benchmarking can be internal, competitive or

generic. Internal benchmarking is a comparison of an organization's internal activities and processes. Competitive benchmarking enables a firm to compare its operation with those of its competitors and to identify strengths and weaknesses. The objective of generic benchmarking is to look at unrelated industries in order to identify best practice.

Browne and Kim (1993) claimed that the capacity to afford an insurance premium is directly connected to one's level of income. Although the limited ability to pay cannot be considered, strictly speaking, a market imperfection contributes to the lack of demand for insurance and can be an equity rationale for public intervention. In developing countries, low incomes inhibit the development of insurance markets. Incomes for the vast majority of the population are absorbed by basic necessities, such as food and housing. A recent analysis indicates that there is very limited provision of insurance in the world's poorest countries, although there is some reason to believe that micro-insurance penetration will increase in the future, particularly for life and health insurance (Roth, McCord, and Liber 2007).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The study was carried out using descriptive cross-sectional design as well as co-relational research. It was a cross sectional survey because data was gathered from insurance companies dealing with health insurance on the external environmental challenges facing the performance of health insurance in Kenya. The survey was also conducted to investigate the impact of the specific challenges facing the industry.

It was a co relational research because it was concerned with assessing the relationship among the challenges facing the performance of health insurance sub sector. No single challenge exists in isolation but various challenges combine to affect the performance of the subsector. The study therefore explored how these various challenges interact with each other.

3.2 Population of the Study

The study targeted all the insurance companies dealing with health insurance in Kenya. At the time of the study there were 16 insurance companies that dealt with health insurance in the country (AKI) .All these companies were studied.

3.3 Data Collection

Data for the study was generated through the primary and secondary sources. Primary data was collected using questionnaires focusing on the external environmental challenges facing the performance of health insurance sub sector.

Secondary data was obtained from the previous studies done on health insurance and publications from institutions that have stake in the health insurance sub sector. The respondents

were senior managers from medical departments in insurance firms which underwrite health insurance.

3.4 Data Analysis

The filled questionnaires were checked for completeness and then coded and the data analyzed. Considering the qualitative nature of the data collected through questionnaires, descriptive statistics was used. Tables were used to summarize responses for further analysis and facilitate comparison. This offered a systematic and qualitative description of the objective of the study.

The data collected was also quantitative. The mean and the standard deviation of the external environmental challenges were determined. Correlation analysis was done to show relationships between various demographic variables of the organizations and the challenges facing the performance of the sector.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the results of the study. The study aimed at determining the environmental challenges affecting the performance of health insurance sub-sector in Kenya. The results are presented in both tabular and graphical formats.

The study targeted all the sixteen insurance companies that offer medical insurance. However, data from fourteen insurance companies was obtained. Of the thirty two respondents targeted, twenty eight responded. This translates to a response rate of 87.5% which is above the 70% threshold. The first section presents the company's background information. This includes, the period the company has been running the medical insurance, the amount of business underwritten in the previous year, the types of covers offered, volume of business written, medical profits, and the distribution channels for the products.

4.2 Demographic Characteristics

The respondents were asked to give information about their organization. The responses are displayed in the Table below:

Table 4.1 Demographic Characteristics

Characteristic	Frequency	Percentage
Duration the company has been running medical insurance		
< 5 Years	1	7.1
6 – 10 Years	4	28.6
11 – 20 Years	6	42.9
21 – 50 Years	3	21.4
Amount of business underwritten in previous year (Ksh)		
< 50 Million	3	21.4
51 – 100 Million	1	7.1
101 – 500 Million	6	42.9
Over 500 Million	4	28.6
Types of covers offered		
Inpatient Cover	14	100
Outpatient Cover	11	78.6
Fund Management	10	71.4
Medical profits for the year ended 31st Dec 2010		
< 0 (Loss)	9	64.3
0 – 50 Million	4	28.6
51 – 100 Million	1	7.1
Over 100 Million	0	0

From the results in Table 4.1 above, 21.4% of the companies reported that they had been running their business for more than 20 years, 42.9% reported between 11 to 20 years, while 35.7% reported that they had been running their business for 10 years and below. Further, the data

showed that 28.6% had underwritten premiums in excess of Kshs.500 Million, 42.8% had underwritten premium of between Kshs.101 million and Kshs.500 million, 7.1% had underwritten premium of between Kshs.51 to Kshs.100 million while 21.4% had less than Kshs.50 million. In addition, all insurance companies reported that they cover inpatient services, 78.6% reported that they cover outpatient services and 71.4% reported that they offer fund management. The results show that majority of the players underwrote premiums of Kshs.500 million and below which could be as a result of the sub sector being operated by many young players, that is 78.6% of the companies have been operating for less than 20 years.

Concerning the profits they got for the year ended 31st December 2010, 64.3% reported that they made losses while the rest (35.7%) made profits. Of those who made profits, 28.6% of the companies made profits of less than Kshs.50 million, while only one company made a profit of between Kshs.51 and Kshs.100 million. No company made more than Kshs.100 Million in profit. This means that according to the above, majority of the medical insurance companies made losses from the businesses which they had underwritten in the previous year. Finally, the results of the study showed that the average volume of individual business underwritten in percentage was 23.57% while the average corporate business underwritten was 76.43%. This shows that majority of the medical insurance underwritten from the corporate business.

4.3 Environmental Challenges affecting the Performance of Health Insurance

This section looks at the environmental challenges which were facing the performance of health insurance sub-sector in Kenya. Among the factors which were looked at in-depth were political factors, economic factors, social factors, and technological factors. The researcher asked the respondents some statements which were related to each factor based on the reviewed literature. The statements responses were likert (ordinal) in nature and were coded as follows: 1 = strongly, 2 = slightly, 3 = no effect, 4 = weakly, 5 = very weakly. To know whether a statement had an impact or not, the researcher found the average of every statement and the ranked it as follows; 1 through 2.5 – strong, 2.6 through 3.5 – little or, and 3.6 to 5 – very weak effect.

4.3.1 Political Factors

The respondents were asked to rank the statements below on how they affected performance of medical insurance companies. The statements in Table 4.2 were some of the political related statements which were perceived to have an impact on the performance of the health insurance sub sectors.

Table 4.2 Political Factors

Statement	N	Mean	Std. Deviation
Government regulations	28	1.43	0.504
Political instability	28	1.79	0.957
Legal framework	28	1.71	1.049
Liberalization	28	2.14	1.145
Government support	28	2.29	1.357

The results in the Table 4.2 show that government regulations affected the performance of the insurance strongly (mean=1.43, SD=0.50). Further, according to the respondents, political stability impacted on the performance of the insurance industry strongly (mean=1.79, SD=0.96). Moreover, the results show that legal framework had a strong impact on the performance of the insurance industry (mean=1.71, SD=1.05). However, the study established that liberalization and government support had a slight impact on the performance of insurance industry (mean=2.14, SD=1.15) and (mean=2.29, SD=1.36) respectively. When asked about what the organizations were doing towards addressing the political factors which were found to affect the performance of their companies, the respondents said that they were holding meetings with the insurance regulatory institution; others said that they were complying with the government regulations. Moreover, the respondents said that they participated in the creation of the appropriate legislation.

4.3.2 Economic Factors

The participants were asked to rank the statements below on how they affected the performance of the medical insurance companies. The statements were some of the economic related statements based on the literature review which impacted on the performance of health insurance in Kenya.

Table 4.3 Economic Factors

Statement	N	Mean	Std. Deviation
Inflation	28	1.14	0.356
Per capita income	28	1.14	0.356
Disposable income	28	1.00	0.000
Economic growth rate	28	1.21	0.418
Taxation	28	1.71	0.460
Interest rates	28	1.79	0.787

From the results in Table 4.3 above, inflation, per capita income, disposable income, economic growth rate, taxation and interest rate had a strong impact on the performance of the insurance industry. This is because in all the cases their mean was less than 2 as shown in Table 4.3 above. In order to overcome the economic challenges which the study found as an influential factor in the performance of the insurance industry, the respondents reported that they do the following: responding to customers' needs efficiently, developing affordable products, encouraging healthy eating, and submitting tax on time.

4.3.3 Social Factors

The statements in the following table were the social related statements which were perceived to impact the performance of the insurance industry in Kenya. The respondents were asked to rank the statements on how they thought they affected the performance of the insurance companies.

Table 4.4 Social Factors

Statement	N	Mean	Std. Deviation
Demographic structure	28	1.57	0.920
Aging population	28	1.64	0.621
Adverse selection	28	1.43	0.836
Moral hazard	28	1.36	0.488
Apathy towards insurance	28	1.43	0.504
Lack of knowledge on insurance	28	1.43	0.504
Lifestyle diseases	28	1.64	1.062
Fraud	28	1.29	0.460

From the results in table 4.4 above, demographic structure, aging population, adverse selection, moral hazard, apathy towards insurance, lack of knowledge on insurance, lifestyle diseases, and fraud strongly affected the performance of medical insurance companies in Kenya. This is because the mean ranks of these statements were all less than 2.5. on the overcoming the social challenge, the respondents reported that they do the following: opening of branches in the major towns so as to be closer to the clients, encouraging prevention rather cure, providing health education, creating new and attractive products, and creating more awareness on the medical insurance and the benefits.

4.3.4 Technological Factors

This section presents the respondents views on how technology affects the performance of insurance industry in Kenya. The participants were required to rank the statements on how they thought each statement affected the performance of the medical insurance companies.

Table 4.5 Technological Factors

Statement	N	Mean	Std. Deviation
Research & Development	28	1.43	0.504
Innovation	28	1.50	0.839
Access to information	28	1.21	0.418
Central database of clients information	28	2.58	1.333
Medical technology	28	1.29	0.460

From the results in table 4.5 above, the interviewed respondents felt that research & development, innovation, access to information, and medical technology affected the performance of insurance companies strongly. However, majority of the respondents felt that central database of clients information affected the performance of the medical insurance slightly (mean=2.58, SD = 1.33). To overcome the technology challenge which the study found as an influencing factor to performance of the insurance industry, the respondents reported that they do the following: adopting new technology, innovative ways of selling medical cover, creating new products, and investing in technology. The results of the study showed that 42.9% of the respondents interviewed agreed with the statement that the marketers clearly understand the products before they sell them, 35.7% disagreed with the same statement while 21.4% remained neutral.

On whether the corporate clients understands the details of their cover, 35.7% of the respondents interviewed opted to remain neutral, 28.6% agreed with the statement, 21.4% disagreed while 7.1% strongly disagreed and the rest (7.1%) strongly agreed with the statements. In general, regardless of the fact that according to most of the respondents interviewed agreeing that corporate clients understand the details of their cover, there was a significant number who disagreed. In contrast with the corporate clients, 50% of the individual clients understand the details of their cover. Further, majority (57.1%) of the respondents interviewed strongly agreed with the statement that bills from doctors and medical service providers are grossly overcharged while 28.8% agreed with the same statement. This implies that most doctors according to the respondents overcharge their clients whenever they learn that they are covered by an insurance company. In addition, 57.1% of the respondents interviewed strongly agreed that those likely to seek medical attention are more willing to buy insurance than those who feel they are healthy, while the rest (42.9%) agreed with the same statement.

4.4 Correlation Analysis

Correlation analysis is a measure of liner association between two variables. The researcher used correlation analysis to determine the strength (if any) of association between the independent variables and the dependent variables. In this study, the dependent variable was performance of medical insurance companies and the independent variables were political factors, economic factors, social factors and the technology factors. The results of the correlation analysis are presented on table 4.6 below.

Table 4.6 Correlation between environmental factors and performance

	Political Factors	Economic Factors	Social Factors	Technology Factors	Profits
Political Factors	1.000	0.456	0.761**	0.143	0.562**
Economic Factors	0.456	1.000	0.512	0.423	0.553**
Social Factors	0.761**	0.512**	1.000	0.223	0.398**
Technology Factors	0.143	0.423	0.223	1.000	0.419**
Profits	0.562**	0.553**	0.398**	0.419**	1.000

** is significant at 0.05 level of significance

The results in table 4.6 above show the correlation between various environmental factors to each other and to performance. According to the table, the strongest correlation was between social factors and political factors. This is because the correlation between the two variables was 0.761 which was significant at 0.05 level of significance. Further, the study established that profits of the company were significantly correlated with political, economic, social, and technology factors. This correlation was found to be significant which means that if the political, economic and social factors are improved then, the profits of the medical insurance companies would increase. The political factors had the strongest correlation to performance among all the studied environmental factors while the social factors had the weakest.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents the summary of the study, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was to determine the external environmental challenges affecting the performance of health insurance sub sector in Kenya.

5.2 Summary of the Findings

It was revealed that majority of the medical insurance companies included in the study had underwritten more than Kshs.100 million as premiums in the previous year. Further, it was found that the inpatient cover was offered by all companies. In addition according to study, most of the companies had made losses in the year ended 31st December 2010. Furthermore, it was noted that brokers and agencies were the major distribution channels used by insurance companies in sourcing for new businesses.

This study found that there is a strong positive correlation between political factors and the performance of medical insurance companies. Further, the study revealed that government regulations strongly affected the performance of the insurance. In addition, it was revealed that political stability strongly impacted on the performance of the insurance industry. Moreover, the results show that legal framework had a strong impact on the performance of the insurance industry. However, the study established that liberalization and government support had a slight impact on the performance of insurance industry.

This study revealed that there is a strong correlation between economic factors and the performance of medical insurance companies. It also found that inflation, per capita income, disposable income, economic growth rate, taxation and interest rate had a strong impact on the performance of the insurance industry. Insurance companies cited response to customers' needs efficiently, development of affordable products, encouragement of healthy eating, and

submission of tax on time as some of the means they employ to overcome the economic challenges they face. The study also established that there was a weak positive correlation between social factors and the performance of medical insurance companies in Kenya. From the findings, the study also revealed that demographic structure, aging population, adverse selection, moral hazard, apathy towards insurance, lack of knowledge on insurance, lifestyle diseases, and fraud strongly affected the performance of medical insurance companies in Kenya.

A positive correlation was realized between technology and performance of medical insurance companies in Kenya. It was established that research and development, innovation, access to information and medical technology strongly affected the performance of insurance companies. However, the central database of clients' information was found to slightly affect the performance of the medical insurance. To overcome the technology challenge, insurance companies were adopting new technology, innovative ways of selling medical cover, creating new products, and investing in technology. On whether the marketers understood their companies' products before selling them, the study found that a significant number of marketers do not understand the products they sell.

5.3 Conclusion

This study concludes that the environmental challenges facing the performance of health insurance sub-sector in Kenya include political factors, economic factors, social factors, and technological factors. This study further concludes that there is a strong correlation between political factors and the performance of medical insurance companies in Kenya. The study also concludes that government regulations, political stability, legal framework, liberalization and government support had an impact on the performance of insurance industry. In addressing the political factors, insurance companies were holding meetings with the insurance regulatory institution; they were complying with the government regulations and they participated in the creation of the appropriate legislation.

This study also concludes that there is a strong positive correlation between economic factors and the performance of medical insurance companies. Inflation, per capita income, disposable income, economic growth rate, taxation and interest rate had a strong impact on the performance

of the insurance industry. In overcoming the economic challenges, insurance companies respond to customers' needs efficiently, develop affordable products, encourage healthy eating, and submit tax on time.

The study established that there was a weak positive correlation between social factors and the performance of medical insurance companies in Kenya. Demographic structure, aging population, adverse selection, moral hazard, apathy towards insurance, lack of knowledge on insurance, lifestyle diseases, and fraud strongly affected the performance of medical insurance companies in Kenya.

A positive correlation was realized between technology and performance of medical insurance companies in Kenya. Research development, innovation, access to information and medical technology affected the performance of insurance companies strongly. However, the central database of clients' information was found to slightly affect the performance of the medical insurance.

5.4 Recommendation

5.4.1 Recommendations with policy implications

The researcher recommends that insurance companies should efficiently respond to customers' needs, develop affordable products and encourage healthy eating. They should also open branches in major towns so as to be closer to the clients, encourage prevention rather than cure, provide health education, creating new and attractive products, and creating more awareness on the medical insurance and its benefits.

In relation to technology, this study recommends that insurance companies should adopt new technology, innovative ways of selling medical cover, create new products, and invest in technology.

5.4.2 Recommendations for Further Research

The researcher recommends further research in the area of the effects of technology on the performance of Health insurance sub sector in Kenya. This study focused on the environmental

challenges affecting the performance of health insurance sub sector in Kenya and hence did not adequately reveal the effects of technology on the performance of Health insurance sub sector in Kenya. The researcher also recommends further research in the area of the relationship between politics and the performance of health insurance sub sector in Kenya.

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APPENDICES

Appendix 1: Research Questionnaire

Part A: General Information (Answer/Tick (√) the appropriate answer)

1. Name of the Insurance Company (Optional) _____
2. Designation of the respondent _____
3. Number of Years the company has been running medical insurance

1. <5 Years	
2. 5-10 Years	
3. 11-20 Years	
4. 21-50 Years	
5. >50Years	

4. How much medical business was underwritten in the year ended 31st Dec 2010?

1. <50 Million	
2. 50-100 Million	
3. 101-500 Million	
4. 501Million-1Billion	
5. >1Billion	

5. Types of Cover Offered

1. Inpatient Cover	
2. Outpatient Cover	
3. Fund Management	

6. Volume of Business Written in Percentage

1. Individual Business	
2. Corporate Business	

7. Medical Profits for the year ended 31st Dec 2010

1. <0 Loss)	
2. 0 – 50 Million	
3. >50<100 Million	
4. >100 Million	

8. Distribution Channels for your products

1. Brokers	

2. Agencies	
3. Banc assurance	
4. Direct Sales Personnel	

Other (Specify)_____

Which of the above is the main source of Business? _____

9. Do you think health insurance should be made compulsory?

Yes	
No	

Comment.....

.....

Part B: External environmental challenges affecting the performance of health insurance sub sector in Kenya

To what extent do the following factors affect the performance of your firm? Kindly tick (√) where appropriate)

A. Political	Strongly	Slightly	No effect	Weakly	Very weakly
Government regulations					
Political instability					
Legal Framework					
Liberalization					

Government support					
B. Economic	Strongly	Slightly	No effect	Weakly	Very weakly
Inflation					
Per capita income					
Disposable income					
Economic growth rate					
Taxation					
Interest rates					
C. Social	Strongly	Slightly	No effect	Weakly	Very weakly
Demographic structure					
Aging population					
Adverse selection					
Moral hazard					
Apathy towards insurance					
Lack of knowledge on insurance					
Lifestyle diseases					
Fraud					
D. Technological	Strongly	Slightly	No effect	Weakly	Very weakly
Research and Development					
Innovation					
Access to information					

Central database of clients information					
Medical technology					

11. How is your organization addressing these factors?

a. Political

i. .....

ii. .....

iii. .....

iv. .....

v. .....

b. Economic

i. .....

ii. .....

iii. .....

iv. .....

v. .....

c. Social

i. .....

ii. .....

iii. .....

iv. .....

v. .....

d. Technological

i. .....

ii. .....

iii. .....

iv. .....

v. .....

vi. .....

10. What other external challenges do health insurance Companies face?

i. .....

ii. .....

iii. .....

iv. .....

v. .....

12. To what extent do you agree with the following statements? Kindly tick (√) where appropriate)

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Marketers clearly understand the products before they sell					
Corporate clients understand the details of their cover					
Individual clients understand the details of their cover					
Bills from Doctors and medical service providers are grossly overcharged					
Those likely to seek medical attention are more willing to buy insurance than those who feel they are healthy					
The premiums for clients are reviewed regularly to reflect the rising cost of treatment					

There is enough legal and policy framework to support health insurance					
Determination of premiums charged in the market depends more on what the competitors are charging than any other prudent pricing method					
People are more likely to seek medical attention if they are insured than when they don't have any form of health insurance					

13. Any other comment;

.....

.....

THANK YOU FOR YOUR RESPONSES & TIME

Appendix 2: Licensed Health Insurance Companies in Kenya

1) GA Insurance Limited
2) Mercantile Insurance Company Limited
3) Pacis Insurance Company Limited
4) Madison Insurance Company Kenya Ltd
5) UAP Insurance Company Limited
6) The Co-operative Insurance Co. Of Kenya Ltd
7) Kenindia Assurance Company Limited
8) Insurance Company of E.A. Ltd
9) British-American Insurance Co. (K) Ltd
10) The Jubilee Insurance Company of Kenya Limited
11) APA Insurance Limited
12) Pioneer Assurance Company Limited
13) Shield Assurance Company Ltd
14) Geminia Insurance Company Ltd
15) CFC Life Assurance Ltd
16) Heritage Insurance Company Ltd

Source: Association of Kenya Insurers website: http://www.akinsure.com/