MICROINSURANCE AS A STRATEGY IN ENHANCING INSURANCE PENETRATION IN KENYA

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DECLARATION

This research project is my original work that has not been presented to any other university or institution for higher learning for the award of a degree.

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This project has been submitted for examination with my approval as University Supervisor**.**

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DEDICATION

This research work is dedicated to my family with special mention of lovely daughter Bryannah Amani who has been such a joy in my life. You have been so supportive through this journey, and you have been a source of inspiration and motivation to keep pushing my boundaries. May God bless you abundantly.

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ABBREVIATION AND ACRONYMS

AKI	**-**	Insurance Industry Report
GDP	**-**	Gross Domestic Product
IRA	**-**	Insurance Regulatory Authority
NGOs	-	Non-Governmental Organisation
RBT	-	Resource Based Theory
SPSS	-	Statistical Packages of Social Sciences

ABSTRACT

The low rate of insurance penetration in Kenya has been a challenge over the years with the penetration rate currently being at 2.43%. In a bid to deal with this challenge, insurance companies have put in place various strategies to make their product offering more appealing to the target market. This study's objective was to determine how micro-insurance is being used a strategy to enhance insurance penetration in Kenya. The research adopted cross sectional descriptive survey as a research design. Data was collected by use of semi-structured questionnaires that were emailed to operation managers of 14 insurance companies that deal with micrinsurance in Kenya. The collected information was analysed via descriptive statistics and content analysis, where use of percentages, mean and standard deviation was applied. The data was tabulated and classified in order to achieve deductions and inferences. Some of the micro-insurance strategies that were used to enhance its penetration by the insurance companies in this study included financial literacy education, use of technology, improved customer service, innovation and product differentiation and availing affordable and flexible premium payment modes. The study established that with proper implementation of micro-insurance strategies, this class of insurance played an important role in enhancing the penetration of insurance. The study's recommendation is that insurance companies should form more partnerships in order to onboard affordable channels of micro-insurance distribution that will lead to enhanced micro-insurance consumption. The policy makers should also be more supportive of micro-insurance by putting in place policies that encourage the invention of innovative micro-insurance products.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Microinsurance refers to offering of protection and security to the poor against specific risks in exchange for premiums (Dror & Piesse, 2014). Insurance penetration, according to Pradhan et al. (2016) is the gross premium income of the insurance sector expressed as a percentage of the country's gross domestic product. It can be used as a measure of the growth of the insurance industry. On the other hand, Chandler, (1962) defines strategy as determining an organization's goals and then implementing a set of actions to achieve those set objectives.

Kassa et al. (2017) established that through offering microinsurance, an insurance company can achieve portfolio diversification, enhanced reputation, and awareness and engagement in corporate social responsibility. These are all factors that work together to boost the uptake of insurance. Jones and Zeng (2019), state that a strategy is both the general and specific directions set for the organization to achieve certain results in the future or to realize a certain state in the future. Bera (2018) argues that microinsurance is an action that is designed by insurance companies in a bid to avail affordable insurance services and products to low-income earners. Microinsurance can therefore be viewed as a strategy employed by insurance providers to enhance the uptake of insurance. With the increase in the population accessing insurance products through microinsurance, insurance uptake will increase, resulting in increased ratio of the total insurance premium of a country against the gross domestic product.

This study is anchored on two distinct theories, risk theory and dynamic capabilities theory. Teece et al., (1997) describes dynamic capabilities to be a firm's ability to reconstruct, build and unite the firm's external and internal capabilities and resources to adopt to a business environment that is rapidly changing. The external business environment is not static and this characteristic is brought about by changing demands by customers, globalization, the investors demands and increasing competition. Due to this instability, insurance companies need to come up with solutions that would be instrumental in generating new sources of competitive advantage for the insurance business to thrive. Ultimately, achievement of this goal is made possible through the formulation and implementation of a strategy that will conform to the company's internal and external environment, thus be able to forge a competitive advantage that is sustainable and boost the firm's overall performance (Thompson et al.,2007).

Risk theory on the other hand attempts to give an explanation of the decisions made by people when they are faced with an uncertain future. The theory offers a prediction on a decision with reference to the distribution of the outcomes it will bring forth, and it is relevant in decision making where the success of these decisions devolve on the turn out of the different risks in the world (Delee, D., 2022).

Provision of micro-insurance products to communities with low incomes is not a new concept. The forerunner of the present micro-insurance was the classic industrial insurance that was in existence in the 19th and early 20th centuries (Micro-insurance Centre, 2007). A study carried out by FinAccess, (2019) revealed that the insurance penetration rate in Kenya is less than 3% of GDP, and that of the Kenyan population, only a mere 7% has any type of insurance policy. The study established additionally that 5% of the insured population is from the formal sector. This means therefore that conventional insurance does not sufficiently cater for the insurance needs of majority of Kenyans in the informal sector. Consequently, a distinct insurance concept is required to enhance the necessary growth through tapping into the existing potential in the informal sector. Micro-insurance was launched in Kenya as a class of business in 2013 to ensure that low-income earners can access insurance services and products. The FinAccess survey (2019) established that only 1.6% of Kenyans use microinsurance. These findings focus on the growing gap between the need for risk protection and outreach of insurance in Kenya which has been very low in the past years. This gap is brought about by the huge disparity in insurance consumption among low-income earners. Microinsurance could play a big role in closing if not reduce this gap.

The small-scale manufacturers, merchants, farmers, and people that generate income on a relatively low scale, make up the bedrock of the uncharted microinsurance market in Kenya. Given this awareness, microinsurance continues to be a means of ensuring financial access and inclusion and they both are prerequisite for enhancing the penetration of insurance. Provision of microinsurance will in addition uphold the policy objectives outlined in the Vision 2030 by the Government’s finance sector.

1.1.1 Concept of Strategy

According to Lenhardt (2017), strategy is an action taken by management to achieve the goals set by an organization. Jones and Zeng (2019) further stated that strategy is a product of a thorough strategic planning process. According to Jones and Zeng (2019), a strategy is both the general and specific directions set for the organization to achieve certain results in the future or to realize a certain state in the future. After a critical literature review of the definitions of strategy, Nickols (2016) revealed that strategy is position, perspective, pattern, and plan. The author further opined that strategy is the bridge between set goals on one side and concrete action on the other side. Therefore, more generally, strategy is therefore a predetermined set of actions employed by a firm to achieve its objectives.

According to Ferreira, Raposo and Mainardes (2014) there are three major categories of strategies, functional strategy, business strategy and corporate strategy. Corporate strategy, according to Brewster (2017), deals with the operation of the whole firm. More specifically, this corporate strategy outlines the businesses and markets in which the firm will operate. According to Ferreira et al. (2014), corporate strategy defines and affects all subunits of the businesses under it and outlines the long-term goals of the business. The business strategy mainly concerns itself with the business and how the firm competes (Yuan, Bao & Verbeke, 2018). Yuan (2018), goes further to argue that business strategies include all the steps and approaches taken to compete. Generally, business strategies are always in line with the corporate strategy (Wheelen, Hunger, Hoffman & Bamford, 2017). In most cases, the business strategy focuses on aspects such as diversification, market development, innovation, product development, vertical or horizontal integration.

Being that strategies, in general, are meant to improve the competitiveness of the business, and most business operations are departmentalized, functional strategies are those strategies that are adopted by the various departments to ensure competitiveness is achieved (Cescon, Costantini & Grassetti, 2019). A functional strategy is a strategy that is designed for the departments or divisions of the organization Rahman et.al., (2018). Operating strategies, as its name suggests, are strategies formulated from the operating units of a firm. They usually are formulated by field-level or operating managers to realize immediate or short-term objectives (Ferreira et al., 2014).

1.1.2 Concept of Micro-insurance

Microinsurance functions under the same guidelines and principles as those of insurance. The key distinction between insurance and micro-insurance is the economic status of the clients, as micro-insurance is usually coined in such a way that it targets low-income earners. Platteau, De Bock and Gelade (2017) revealed that aside from targeting low-income earners, micro insurance is common in developing countries and emerging markets and its products are highly customized.

Micro-insurance plays a critical role in not only the insurance company providing it but also to the government and the people who are offered the services. Risks are not limited to a specific person or business; risks are unpredictable, and anybody can be a victim. However, the low-income earners, small and medium businesses are more prone to risks than any other group. It is through microinsurance that this group of businesses can insure themselves against these risks Kassa et. al., (2017). Micro-insurance, from its definition, provides the poor a means to protect themselves against specific risks that contribute immensely to the eradication of poverty (Augustine, & Adesunkanmi, 2017).

Micro-insurance is presented as a financial device designed to protect those with low incomes against risks and its benefits can be seen through various avenues. Micro-insurance makes it easier to access health care services. The sick can seek treatment earlier and avoid unnecessarily prolonged illness. This will result in less people taking sick-off days and therefore a stronger and more productive population is available in the workforce. Micro-insurance provides social and financial protection. Insurance can absorb some of expected risks and thus relieve the burden on public resources. According to Keenan (2015), micro-insurance encourages economic growth by creating a safe environment for innovation and investment. Both firms and individuals are more likely to undertake activities considered risky when they know they have insurance in place to safeguard them against losses. Microinsurance financially protects the low-income earners by reducing the amount of expenditure incurred when a risk occurs.

According to Kassa et al. (2017) through offering microinsurance, the insurance company can achieve portfolio diversification, enhanced reputation, and awareness and engagement in corporate social responsibility. Additionally, if the insurance company is the first to attempt in that particular market, it will enjoy benefits accrued from the first-mover advantage.

Despite the importance and even benefits that micro-insurance has to both the firm and low-income earners, there are still challenges that face the notion of microinsurance. According to Limna (2018) one of the greatest challenges it is facing is the lack of or limited financial literacy. It is greatly dependent on the level of financial literacy of the individuals to whom it is to be offered. Bera (2018) noted that the gap between demand and supply for microinsurance in rural areas is wide. This results in the market taking up a much lower portion than that projected by the providers. Further, many insurance service providers are still grappling with the decision on whether it can be a stand-alone venture or complementary to the already existing services of the company. This indecision has hindered adequate investment. According to

Platteau et al. (2017) awareness of its products, and relevance among the target market is very low, and this is a limiting factor to microinsurance and its full realization in the target populations. Contingent on the level of income of the earmarked population for microinsurance and the fact that most of them are found in informal settlements, it poses a challenge to its providers with regards to distribution.

In a bid to counter the numerous challenges associated with the consumption of micro-insurance, various strategies are employed by insurance companies to increase the appreciation and subsequent consumption of micro-insurance products. Some of these strategies include financial literacy education, use of technology, improved customer service, innovation and product differentiation and availing affordable and flexible premium payment.

1.1.3 Insurance Penetration

According to Vimala and Alamelu (2018) penetration of insurance is the ratio of the total insurance premium of a country against its gross domestic product. Pradhan et al. (2016) further asserted that penetration of insurance is the gross premium income of the insurance sector as a percentage of the country's GDP and can be used as a gauge to measure the insurance sector’s development. A high rate of penetration means that there are more people of that country that have access to insurance, thereby making the insurance industry of that country more developed. Hence the insured population of that nation has peace of mind, there is more consumption of goods and also entrepreneurship in that country has greatly improved. Keenan (2015) argues that an insurance industry is considered to be mature when the rate of growth of premiums is higher than that of GDP, thus insurance industry participants and policymakers strive to find ways to improve the ratio between GDP and premium.

The penetration of insurance could either be low or high and is influenced by various factors among them being lack of insurance culture among the low-income earners. This is a limiting factor for insurance penetration. Most of the populations with low incomes do not understand that insurance is used as a tool to manage risk. With reference to Njuguna and Arunga (2013), many people are not keen on payment of premiums for an abstract product and with rewards that are to be acquired in future but may never be claimed. This negative perception is brought about by lack of trust or confidence in insurance providers (Timetric, 2015).

A study carried out by CENFRI, (2014), cites lack of access and inadequate knowledge of insurance companies and services provided by these companies amongst the informal sector. Insurance is regarded as a commodity for the rich and affluent. Diminished understanding and unavailability of relevant insurance products presents inadequate information and is not valuable in aiding the customer in making important decisions regarding management of risk. These are some of the prevalent factors that promote the low penetration and poor perception of insurance currently, particularly amidst the low-cost market.

Poverty is the reason why the low-income population does not buy insurance. The uptake of insurance products is majorly affected by the level of disposable income. (Morduch, 2006) argues that provision of insurance to low-income earners is a challenge because most of them work in the informal sector and are self-employed with income patterns that are unpredictable and low. This means that there will be low or no extra income available to buy insurance.

Makove, (2011), established that in order for microinsurance to grow, it is necessary to have legal enforcement and prudential regulations that are specific to the needs of microinsurance, that will address areas such as registration, delivery channels, approval of products and intermediary market. Insufficient data and unclear understanding of the risk poses a challenge to the insurers' risk assessment and pricing of micro-insurance products. Due to this, insurers' profits are threatened and to low-income earners, microinsurance products can be overpriced. Even though microinsurance products should be priced affordably, they must also be profitable to insurance firms (Timetric, 2015).

Micro-insurance is designed in such a way that it addresses the constraint of low and unreliable income. The products are affordably priced as compared to the conventional insurance products and premium payment is flexibly structured to allow instalments and payment when the micro-insurance clients have sufficient funds like during harvest. This makes the products more appealing to low-income earners who have little to no dispensable income to spend on conventional insurance. With this flexibility, there is more consumption of micro-insurance products that leads to higher rates of insurance penetration.

1.1.4 Insurance Companies in Kenya

The registration and licensing of insurance companies in Kenya is carried out by the Insurance Regulatory Authority (IRA) that is grounded in the foundations of the insurance Act, Chapter 487 of laws of Kenya. The IRA was forged under the Insurance (Amendment) Act of 2006 and became operative on May 1st 2007 (IRA, 2010). This authority’s mandate was supervision, regulation and development of the insurance industry. This industry carries out self-regulation through the Association of Kenya Insurers (AKI) that was instituted in the year 1987 and was registered under Society Act Cap 108 of the Kenyan law. Its role was to offer advisory and consultative services to insurance companies.

With reference to AKI's annual report (2020), 56 insurance companies were licenced to operate in the Kenyan insurance industry. In addition, there are five reinsurance companies, 18 reinsurance brokers, 11,138 insurance agents and 204 licensed insurance brokers operating in Kenya. Additional industry players included 128 motor assessors, 150 insurance investigators, 10 risk managers, 31 loss adjusters, 34 medical insurance players and 33 surveyors. Non-life insurance, which majorly constitutes medical and motor and classes has for the past six years dominated the market and represented 56.39% of the cumulative premiums in the year 2020. The scale of premiums earned from life insurance been rising marginally yearly from 35.59% in the year 2015 to 43.61% in 2020, while the premiums from life insurance grew by 4.87% from KES 97.85 billion in 2019 to KES 102.61 billion in 2020. Premiums from non-life insurance diminished on a small scale by 0.56% from KES 133.45 billion in 2019 to KES 132.70 billion in 2020. Cumulative insurance premiums grew by 1.73% from KES 231.30 Billion in 2019 to KES 235.31 Billion in 2020.

Penetration of insurance in 2020 was 2.3%. Since the year 2017 this figure has been diminishing and this could be due to insurance premiums growing at a slower rate than the GDP. In comparison to global counterparts the penetration rate is quite minimal. The cause of this is attributed to the minimal levels of disposable income amongst the prospective consumers, inadequate awareness on the available insurance products particularly in the informal sector, which is dominant in the Kenyan economy and negative perception towards insurance products. Most Kenyans live in poverty and do not consider insurance a necessity, but rather as something for the rich. This outlook has given rise to low development of the insurance industry in Kenya especially because majority of Kenyans earn relatively low incomes. Microinsurance, therefore, presents itself as the most appropriate strategy in the insurance industry that can be used in making insurance affordable to low-income earners. With its affordably priced products and flexible premium payment modes, micro-insurance meets the insurance needs of the population of Kenyans with low and unpredictable incomes. Currently, there are 14 insurance companies in Kenya that are licenced to transact this class of business.

1.2 Research Problem

With reference to Morelli et al., (2010), most populations comprised of low-income earners in Africa have no understanding of insurance or how it functions and thus, insurance penetration continues to be very low. To remedy this, organizations, in this case insurance providers, need to incorporate appropriate strategies in order to curb the pressures brought about by variations in both the internal and external environment (Oliver, 1991).

The uptake of insurance remains minimal, not just in Kenya but in whole world, despite insurance being in practice for more than a thousand years. When compared to other countries, insurance penetration among the Kenyan population is quite minimal. Malaysia is a good example to consider as it is estimated to have 41% of the entire population having a kind of life insurance as compared to Kenya where less than 3% of the total population is insured. Consequently, there is need to establish how microinsurance could be employed as a strategy to enhance the uptake of insurance.

Several studies focusing on various contexts in micro-insurance have been carried out by various scholars. In India, Radeva (2012) highlighted on measurement and long-term balance between social and financial performance in health microinsurance in the country. The conclusion of the study was that financial and social factors influenced the performance of health microinsurance in the country. Ahuja and Guha Khasnobis, (2005), carried out a study on micro-insurance in India that focused on strategies and trends for greater expansion. Their study revealed that the government and insurance regulator needed to offer more guidance in addition to there being flexibility in premium payment. Policies needed to be amended so as to ensure that microinsurance uptake in the country increased. Ramesh and Nishant (2006) conducted a study on the factors affecting the demand for health insurance in a microinsurance program in India. The findings were that income and individual perception of insurance were contributing factors to purchase of insurance.

Additionally, National Insurance Commission of Ghana (2012) carried out study on micro-insurance as an instrument of the development of the insurance sector. The study’s findings were that among the factors that hindered the uptake of microinsurance were, lack of trust for the insurance providers, lack of sufficient funds, the perspective that insurance was not important and lack of information about available insurance options. Ndurukia et al., (2017) conducted a study on factors influencing the demand for microinsurance services in the insurance industry in Kenya. Their findings revealed that there was a meaningful relation between risk exposure, price, level of income and access to credit and the demand for microinsurance. Obuba, (2014) focused on the effect of product pricing on the growth of micro-insurance by insurance underwriters in Kenya. His conclusion stated that there was a clear relation between the pricing and consumption of microinsurance products.

Ndirangu (2015) focused on the microinsurance strategies adopted by insurance companies in Kenya to create sustainable competitive advantage. According to his findings, these included product differentiation, cost leadership and flexibility in premium payment. Omondi (2017) carried out a study investigating the effects of microinsurance on the financial performance of insurance companies in Kenya. This study focused on three factors, total premiums, total cost, and total claims. The study revealed that the three factors don't have any significant impact on insurance companies' performance. Gitau, (2013)'s study was on strategies adopted by Kenyan insurance companies to alleviate low insurance penetration. This study focused on elements causing minimal insurance consumption, setbacks insurance companies faced in promoting their products and identified the strategies that could be adopted by the insurance companies to alleviate them. Odenyo, (2018) conducted a study investigating the factors affecting microinsurance penetration in Kenya. This study revealed that there was inadequate research carried out when developing microinsurance products thus leading to products that do not meet the requirements of the target market. Uncompetitive pricing, incomprehensive legal framework and cultural factors were some of the other factors that sidelined the growth of microinsurance in the country.

Gauging from the review above and to the researcher's best knowledge, there seems to be no study carried out to determine how microinsurance could be employed as a strategy by insurance companies to enhance insurance penetration. It is with this in mind that this study attempted to fill this existing gap. The study therefore undertook to achieve this by answering the question, how can micro-insurance be employed as a strategy to enhance insurance penetration in Kenya?

1.3 Objective of the Study

This study's objective was to determine how microinsurance is employed as a strategy to enhance insurance penetration in Kenya.

1.4 Value of the Study

This study's findings shall be an asset to scholars, academicians and researchers seeking to conduct further studies on microinsurance as a strategy in enhancing insurance penetration. The findings of the study will be a beneficial addition to the present knowledge body in the sector of microinsurance in Kenya and to other developing countries. It could be a springboard for future research or studies in the same or other associated fields regarding the problem of low insurance penetration and how this could be alleviated through microinsurance.

The study findings could also be a useful tool to executives of insurance companies, especially those looking into growing their market share in the insurance industry. The findings will be suitable in assisting them to come up with policies around microinsurance and introduce related products to enhance growth. In addition, the IRA could use the findings to formulate structures and policies that would be valuable in the growth of the industry while enhancing contribution to the GDP.

To the government additionally, this study will be relevant because microinsurance is closely linked to the Vision 2030 which aims to increase financial inclusivity and access to insurance products and services to low-income earners. This study's findings could be instrumental in guiding the government in formulating appropriate policies that could enhance financial inclusivity that would in turn improve the quality of life for most low-income households.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter encompasses three segments namely theoretical foundation, micro insurance strategies and insurance penetration and empirical review.

2.2 Theoretical Foundation

This chapter outlines two theories on which the study is anchored. These theories are dynamic capability theory and risk theory.

2.2.1 Dynamic Capabilities Theory

Dynamic capabilities are stipulated as the ability to incorporate, build, and reorganize competencies to deal with the fluctuating environments (Teece et al., 1997). The theory arose from limitations of the RBV of the firm such as ignoring the sorrounding environments. This theory tries to bridge the gap by buffering the fluctuating business environment and firm's resources. Having resources that are dynamic in a company helps maintain the competitive advantage of the firm (Koentjoro & Gunawan, 2020). Dynamic capabilities theory emphasizes on development and renewal of resources.

The theory is useful to firms operating in changing environments as they help lead the company into a competitive position and ensures the long-term sustainable competitiveness of the firm (Achieng, 2018). This way, the firm can develop other resources in an unstable environment over time. The overview of the theory shows how a firm could develop its assets, path dependency, and innovation in the ever-changing environment. However, the theory assumes different positions in the competitive strategy of a firm but the capabilities entail integrated functions that bring together different forms of operations to meet a common goal, create new resources and reconfigure the company actions to meet the changing business environment. With the changing market environment, companies need to employ strategies that will respond to these changes. For example, when there is stiff competition among insurance companies, there is need to do product differentiation meaning the product sold to target customers has to have qualities that differentiates it from the product of the competitor. This places the provision of micro-insurance as a valuable strategy that will make a firm's product stand out from the competitor's products.

2.2.2 Risk Theory

In the modern world there are various risks of different nature that occur on a daily basis. Some of these risks threaten all people while others are restricted to individual owners of property. These accidents, losses or claims occur suddenly and unexpectedly and may lead to considerable financial loss. Almer, B (1967).

Risk theory provides on how people formulate decisions when confronted with a future that is uncertain. A typical circumstance where the application of risk theory may be relevant involves several possible variations of the world, several viable decisions, and a probable outcome for each combination of variable state and viable decision. This theory postulates a decision with reference to the variation of outcomes it will bring forth. The theory is significant for persons who formulate decisions whose success is dependent on how the risks in the world eventually turn out. A good example would be the decision makers in insurance companies, whose success depends on prediction of the magnitude and frequency of claims. They would employ risk theory as a valuable tool in determining their optimum risk exposure. Any decision that is made concerning the future must take into consideration a particular level of uncertainty. In various cases, for instance in an investment decision where the company in question has the probability to default, the price the investor might be willing to pay would be highly determined by the level of unpredictability involved. Uncertainty could influence the fact whether action should be taken at all or not. It is in those cases where risk theory is used. (Delee, D. 2022).

Insurance companies are always at a risk brought about by the competitiveness of the insurance industry. The population of clients that can afford and is willing to buy insurance products is low and this in turn means that the demand for insurance products is not as high as it should be. If the said insurance companies are to deal with the imminent risk of not achieving the projected growth and subsequent profits, they should ensure that they have a sufficient product range which in turn will enable them reach a wider market. Micro-insurance could be the very solution they need to achieve this goal.

2.3 Micro-insurance Strategy and Insurance Penetration.

The global economy is to a great degree inter-connected and prone to various difficulties which are deep seated in the social-economic structure. In a bid to find a solution to these problems, microinsurance provides management of risk and enables mitigation of loss (Chummum, 2012). As the economy develops, so do premiums written. Nevertheless, in emerging markets, levels of penetration are way below those of developed markets. To tackle risks, the less privileged have traditionally used pooling of risks by use of informal insurance or arrangements where they share risks. The sustainability and growth of micro insurance in any given country helps in promoting the penetration of insurance because this will consider low-income earners (Keenan, 2015). Therefore, adoption of the microinsurance strategies is critical in enhancing insurance penetration.

2.3.1 Financial Education

Programs aimed at financial education could enhance people's appreciation and comprehension of microinsurance and therefore increase its consumption. Mukama et al., (2005) states that insurance companies staff's education is important. Establishing learning centres, conducting seminars, training and workshops will help increase awareness of micro-insurance among stakeholders. This process will help in strengthening stakeholders' integrity, promote transparency and improve governance. It will also help scale up and speed up marketing and promote innovation. Lack of knowledge will lead to unsuccessful implementation of micro-insurance programs.

2.3.2 Distribution Channels

Adopting efficient and effective distribution channels that can increase micro-insurance uptake will in turn enhance insurance penetration. Osero (2009), suggests that supermarkets, churches, small retailers (e.g hairdressers, kiosks), public utility companies and gas stations can act as channels of distribution that could increase micro-insurance sales. Private financial institutions, NGOs and banks could also be involved in distributing micro-insurance products. Even though this channel can reach a large population, it unfortunately suffers from high transaction costs when distributing insurance products to low-income earners (Maleika & Kuriakose, 2008). Ngoima, (2013) classifies agents into brokers and agents. This study discusses the role of agents in insurance penetration.

Ahuja and Guha-Khasnobis, (2005) study established that insurance companies collaborate with different civil society associations which have the role of mediating agency that act in support of the prospect community in providing insurance services to the pool. This type of agency helps insurance companies overcome high costs of transaction incurred when availing insurance to poor communities. Poor settlement of claims has led to negative perception of insurance thus causing slow consumption of micro-insurance products. Customer service helps customers understand what is being insured and constantly help monitor claims. If the policy is due for renewal, the insurance provider through customer service is able to give notice to the client that the final premium payment of the existing policy has been made and that the next policy will commence automatically when the next payment of premium is made, IRA, (2014).

2.3.3 Digitalization and Automation

Digitalization and automation of the insurance industry will help increase insurance penetration. This includes suing new information and communication technologies and coming up with technology enabled business models that facilitate the uptake of insurance products. For example, ICT application in microinsurance will facilitate client registration, premium collection and administration and claims management. Employing mobile systems in premium payment, receiving claim pay-outs and related information and receipts could be beneficial too. The lengthy and detailed policy documents could be replaced with a short text message that contains the same but brief information. To avail the comprehensive policy document, the insurance provider may refer the client to a website through a link where they could retrieve it, if they have certainty of the availability of internet to the policyholder (Kenya insurance policy paper, 2014).

2.3.4 Product Innovation

According to Hansel (2010), there is need for product regulations that are aimed at protecting the customer and with focus on determining whether the product offered qualifies as a microinsurance product. The consumers in insurance markets are not well informed on the product characteristics and therefore need to be protected from possible exploitation by insurance companies. Tennyson (2010), observes that information asymmetry arises in insurance markets due to wide variations in products and prices making quality determination difficult for consumers, hence providing an opportunity for manipulation or misrepresentation by insurance companies. Grace and Scott (2009), contend that insurance product regulation ensures transparency of the market by assuring consumers that insurance contracts are clear and do not contain hidden or misleading clauses.

The International Cooperative and Mutual Insurance Federation (ICMIF) recommends the following as some of the main traits of micro-insurance products. They are tailor-made, meaning that the product range and suitability should be designed by clients’ needs. The products should be simple and easy to understand, affordable and they should have relaxed terms and conditions unlike the conventional products. Microinsurance products should also have simple premium collections and claims processes, and insurance consumers should be allowed to make payment when they have funds for example during harvest season (Barasa, 2016).

2.4 Empirical Review and Knowledge Gaps

Kanyangale and Lukhele (2018), carried out a study on the nature of microinsurance channels and distribution strategy. The objective was to find the nature of the two variables using the case study of a commercial insurance company in Swaziland. This study established that the insurer relied on contemporary mediums like cooperatives, post offices and churches which are areas characterized by large numbers of potential clients. They lacked specialized expertise in respect of trustworthy advisors and business partners to micro-insure clients in the country. Channels of communication, partnerships, bringing microinsurance close to the people, and ease of doing business are noted as the distribution strategy of the insurer. Consumer education, tailored medium development, and the segmentation of contemporary mediums to fit the low-income consumers are among the suggestions of cost-effective distribution. The findings are suggested to be a simple framework for the distribution of micro-insurance. This study presents a conceptual gap with regards to the dependent variable which was distribution strategy. This study's aim is to address this gap by incorporating insurance penetration as the dependent variable.

Augustine et al. (2018) conducted a study in Nigeria about microinsurance penetration. The study's purpose was to come up with a micro-insurance policy, examine the strategy, find the cause of low penetration in the microinsurance industry, and develop clear policies that enhance access to financial services. The findings are that low-income populations needed diverse financial services such as credit, insurance, and saving which are easily affordable and accessible. The authors show a need for the regulators and supervisors to create an environment that allows the outreach and sustainability of micro-insurance. This research presents a contextual gap as the study was carried out in Nigeria. This study pursues to fill this gap by focusing on insurance companies in Kenya.

Radhika and Satuluri (2019) conducted a study on the penetration of life insurance in India. The main purpose of the study is addressing low penetration in the insurance industry in India and suggest the measures insures can take to improve life insurance penetration. The study suggests that there is need for the insurance companies in India to maximize the digital platform by analyzing the buying and behavior patterns of the Gen Z generation as this group is influencing the digitalt scenario. The study recommends investment in robotics, artificial intelligence, digital, and analytics as ways of enhancing insurance penetration in the country beyond the global average. Radhika et al. (2019) focused their study India while the focus of this study is on the insurance companies in Kenya.

Magazi (2019) conducted a study on the effect of micro-insurance on the welfare of households in South Africa. The study concluded that households understand and recognize the need for insurance by 74% but they lack plans to address the risk. Insurance is mentioned to have a positive impact on household welfare with an emphasis on health and life insurance. The study is consistent with previous studies whereby education is a key factor for utilizing financial services to enhance welfare and eradicate poverty. Standard insurance products are claimed to not meet the needs of a low-income group due to their costs and mismatch. The study recommends the creation of unique products and distribution systems to increase penetration in the insurance market. The study by Magazi focused on micro-insurance and household welfare, this gap will be filled by focusing on insurance penetration as the dependent variable.

Mutua (2017) conducted a study on the influence strategies of distribution had on microinsurance product consumption in Kenya. The objective was evaluating the influence of strategies of marketing on the consumption of micro-insurance products and services in Kenya. Thirty-eight financial institutions that offer microinsurance products such as commercial banks, insurance companies, and microfinance institutions were used as the population for the study. Questionnaires were used to collect data. The research findings show a positive relationship between product uptake and the strategies adopted. It emphasizes proper consideration when selecting a distribution strategy in an insurance company as this determines the long term survival of the insurance company.

Barasa (2016) conducted a study in Kenya on insurance penetration. The objective of the study was to propose a framework that can be adapted to promote better insurance uptake. It was limited to insurance firms that were licenced to operate in the insurance industry whereby it used fifty-seven respondents from the listed firms. The study found out determinants, challenges, and strategies as variables with a 72% impact on insurance penetration. The authentication of the framework shows that pricing, technology, regulatory framework, customer awareness, and innovation as key determinants of penetration of insurance. The study recommends the adoption of technology and engaging the regulator and government in drafting the laws to facilitate insurance penetration. From this study there is a conceptual gap as it did not include the concept of micro-insurance as a variable.

Bansri (2017) conducted a study on the perception of microinsurance as a risk management tool for small scale farmers in Limuru, Kenya. The study's purpose was to identify the gap between what insurance companies offer and what the people want and the study's scope was limited to the region of Limuru. The study found out that Limuru farmers faced many challenges but they have not acquired any crop insurance to handle the challenge. It shows that the Limuru small-scale farmers do not consider microinsurance as a tool to manage risk. The study shows the need for insurance, reinsurance, and government companies to offer insurance products to farmers at an favorable rate to help them manage the crop risks resulting from adverse events. A contextual gap is presented as the study focused on small scale farmers in Limuru while this study focuses on insurance companies in Kenya.

Ndurukia, Njeru and Waiganjo (2017) conducted a study on the determinants of demand for microinsurance services in Kenya. Its objective was to find the factors that influenced the need for micro-insurance services. The target population was licensed insurance service providers whereby questionnaires were the primary method of data collection. It found out that income level, risk exposure, access to credit, and price, determined the demand of microinsurance. Structural and economic factors were mentioned as potential factors for microinsurance demand but are yet to be exploited. It recommends public awareness and education as ways of increasing the demand for micro-insurance services and hence increasing the penetration in the industry. Ndurukia et al. (2017) focused on micro-insurance services in Kenya hence providing us with a knowledge gap. This will fill this gap by studying micro-insurance and insurance penetration.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the study centers on the methodology adopted in the research. It discusses the processes and methods of research employed starting with the design, followed by a description of target population, procedure of data collection and instrument used, and techniques employed in analysing the data.

3.2 Research Design

Research design refers to a collection of techniques adopted to find answers to a research problem (Kumar, 2019). This research study adopted a cross sectional descriptive design. This research design includes observing and analyzing behaviors of the respondents without interfering with their normal operations. Cooper and Schindler (2006) study states that a descriptive study gives a definition of the subject, formulates a profile of a cluster of persons, events or problems by means of data collection and frequency tabulation on the research variables.

A descriptive design combines both quantitative and qualitative aspects to improve quality of data collected (Kumar, 2019). The descriptive research design was applied in this study because it facilitated the collection of original data that was crucial in realising the objectives of the research. It also assisted in the collection beneficial data that could be quantified and reported as a demonstration of the actual situation or characteristic in a study population.

3.3 Population of the Study

Population of the study refers to the persons or objects with a common identity related to the research topic (Kumar, 2021). Generalizations were made from this target group. The study narrowed its focus to the insurance companies in Kenya that are licenced to deal with the microinsurance class of business. According to IRA report (2020), only 8 insurance companies underwrote microinsurance, but 14 companies are licenced to deal with the microinsurance class of insurance in Kenya. Due to the small number of study participants, this was consequently a census study focusing on the 14 companies.

3.4 Data Collection

Data compilation involves gathering quantitative and qualitative data with the objective of finding answers to research problems (Axinn & Pearce, 2006). Primary information was collected by this study by use of semi-structured questionnaires. Operations managers received the research questionnaire via email because majority of the participants had access to email. Operations managers qualified as the most appropriate respondent as they are charged with planning, operations performance, embracing design, management of the operations process, and performance improvement. These responsibilities put them in a position to answer the questionnainnaires. Mail survey was used as respondents were not available for personal interviews.

3.5 Data Analysis Techniques

The collected primary data was analysed using descriptive statistics. Through content analysis, open ended questions were analyzed, while closed ended questions were analysed through descriptive statistics. Content analysis can be described as the process of extracting sense from the opinions and views of circumstances of research respondents, occurences, categories, corresponding patterns, themes, and regular similarities (Axinn & Pearce, 2006).

Data collected was tabulated, cleaned, edited, coded and classified in order to achieve accurate deductions and inferences. Closed ended information were evaluated by use of the Statistical Packages of Social Sciences (SPSS). Whereby the collected data was fed in the system of SPSS and later generated the outcomes descriptively through graphs, charts, tables, percentages, mean and standard deviation.

CHAPTER FOUR

DATA ANALYSIS, RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis, intepretation and discussion of the collected primary data. This study's objective was to establish how micro-insurance is employed as a strategy in enhancing insurance penetration in Kenya. Consequently the study provides useful pointers as to how increased uptake of micro-insurance leads to a higher rate of insurance penetration.

4.2 Respondents' Demographic Information

In this segment, demographic information and background of individual paricipants is examined. The demographic information that this study considered included the duration the respondent had worked in the organisation and the position held at the said organization.

4.2.1 Response Rate

The study sought information from operations managers in the 14 insurance companies that are registered to transact micro-insurance business in Kenya. Mugenda and Mugenda (2003) stated that a response rate of more than 50% is considered good enough for statistical evaluation and reporting. Out of the 14 questionnaires circulated, 10 questionnaires were received fully completed and ready for analysis, constituting 71.4% response rate and was sufficient to analyse and draw conclusions geared towards achieving the objective of the study.

4.2.2 Duration of Service in Current Role

The study required the respondents to state the number of years they had served in their role as operations managers. This was relevant in determining their level of experience which in turn helped in gauging their level of expertise and understanding of the insurance industry and the micro-insurance business segment. The findings are reflected in table 4.1.

Table 4.1 Duration of Service in Current Role

Category	Frequency	Percent
3-5	5	50
6-10	3	30
10 and above	2	20
Total	10	100

Source: Research Data

According to the research findings, a large proportion of respondents had held their work position for a duration between 3and 5 years (50%), followed by those respondents who had been in their role for between 6 and 10 years at 30%. Finally those who had worked for over 10 years constituted 20%.

From these figures, the number of respondents that had worked in their current roles for less than 5 years is equal to the number of respondents who had longer work experience. The implication arrived at was that the participants had sufficient experience to make meaningful contributions to this study as the collected data would be representative of respondents with high work experience as well as those with less experience.

4.3 Micro-insurance Operational Factors

The aim of this section was to seek to find out which types of microinsurance products the target insurance companies transacated in, mode and frequency of premium payment, channels of micro-insurance products' distribution and what strategies were in place to promote the uptake of micro-insurance. The period of time the insurance company had been in operation in the Kenyan market was also sought.

4.3.1 Duration the Insurance Companies Have Been in Operation

The aim of the question on the duration in which the insurance companies had been in operation in the Kenyan market was to assist in assessing the insurance company's capacity in terms of financial and manpower resources. It also was vital in gauging the company's overall understanding of insurance regulations and the dynamic nature of the Kenyan insurance market.

Table 4.2 Duration the Insurance Companies Have Been in Operation

Number of years	Frequency	Percent
6-10	1	10
11-15	1	10
16-20	2	20
20 and above	6	60
Total	10	100

Source: Research Data

With reference to the results presented in table 4.2, majority of the respondents (50%) have been operation in the Kenyan market for over 20 years. Those that have been in operation for 6-10 years and 11-15 years are both represented by 10% each. The companies that have operated for a period between 16-20 years are represented by 20%. The findings depict that the target companies have taken root in the insurance market and they therefore are conversant with insurance regulations and the dynamic nature of the Kenyan insurance market. In addition, they are in a position to put in the investment required to promote the uptake of micro-insurance which will in turn improve the overall penetration of insurance in Kenya.

4.3.2 Duration the Insurance Companies Have Been in Micro-insurance Business

This question was aimed at establishing the length of time the insurance companies had engaged in the sale of micro-insurance.

Table 4.3 Duration the Insurance Companies Have Been in Micro-insurance Business

Number of Years	Frequency	Percent
0-3	1	10
3-5	3	30
5 and above	6	60
Total	10	100

Source: Research Data

The results presented in table 4.3 indicate that 60% of the respondents have been transacting micro-insurance business for over 5 years. An additional 30% has been transacting micro-insurance business for a period between 3 and 5 years. This clearly indicates that the study respondents recognize the value of micro-insurance products and their contribution towards the total written premiums and insurance penetration by extension.

4.3.3 Micro-insurance Products

A question on the type of micro-insurance products offered by the insurance companies was asked and it was established that different insurance companies offer different types of products and this was dependent on the clientelle targeted. The common target market across the companies was students on attachment, farmers, M-pesa agents small scale traders and frequent travellers that travelled by road. Additionally, group members of informal table-top banking, commonly known as 'chama', commercial motorbike and tuktuk riders were also among the targeted clientelle for micro-insurance products.

Products developed for small scale traders included credit insurance and various life insurance products, while personal accident products and internship cover products were formulated to target students on attachment. The students on attachment need these covers in the event that they are involved in accidents and are injured during the internship period. Other micro-insurance products included last expense cover, disability cover, micro-medical, micro-business cover and micro-PSV covers that were specially crafted for commercial motorbike and tuktuk riders.

4.3.4 Mode and Frequency of Premium Payment

According to the findings of the study, there were various preffered modes of premium payment. These included premium financing (IPF), mobile cash transfer (M-pesa), cheque and check-off. Insurance premium financing was popular as it gave the clients the opportunity to pay the premiums over and extended period of time while their policies were fully paid for and thus active in the event of a claim arising. The other mode of payment that allowed for this kind of flexibility in premium payment period was the check-off option. With this option, the clients are able to pay their premiums over a period of time especially when paying for life policies and it relieves them of the responsibilty of following up the payments as this process is automated.

Mobile cash transfer was also flagged as a popular mode of premium payment and this is because this mode provides the much needed financial accessibility especially to Kenyans in rural areas. Most Kenyans in rural areas have no bank accounts and their preferred mode of banking is through pooling their resources using informal banking systems. The insurance companies in the study are therefore tailoring their products with an aim to make premium payment convenient and flexible for their clients and M-pesa comes in handy to provide a solution. Premium payment was done on a monthly basis for life insurance policies and annually for non-life insurance policies.

4.3.5 Uptake of Micro-insurance Products

The trends and general consumption of micro-insurance products was also a parameter the study sought to find out. Knowledge of the said trends would be useful to the researcher as it would help dertemine how viable and effective the strategies aimed at enhancing the consumption of micro-insurance actually are.

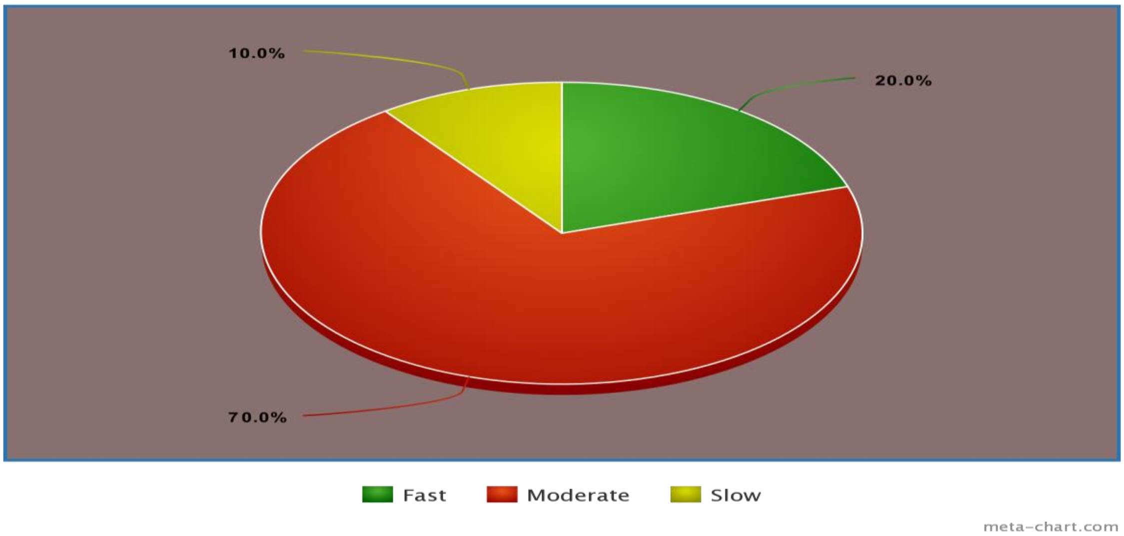
Table 4.4 Uptake of Micro-insurance Products

Level of Uptake	Frequency	Percent
Fast	2	20
Moderate	7	70
Slow	1	10
Total	10	100

Source: Research Data

Table 4.4 presents findings that indicate that majority of the study respondents (70%) indicated the uptake of micro-insurance products to be at a moderate rate. 20% of the study respondents indicated that the uptake trend was fast, while 10% indicated that the uptake was slow. These findings imply that the uptake of micro-insurance is generally moderate. Adoption of the various strategies that would enhance growth of this class of insurance would ultimately lead to higher consumption of micro-insurance, which will then lead to a higher insurance penetration rate.

Figure: 4.1 Pie Chart Representing the Level of Uptake of Micro-insurance.



Source: Research data

4.4 Micro-insurance Strategies

The uptake of micro-insurance in Kenya has been minimal and for this reason, insurance companies have had to come up with strategies to enable them maximize sales of this insurance model. Stiff competition, low levels of insurance penetration, high-cost and unregulated pricing of micro-insurance products are a few of the challenges that insurance companies have to contend with. This has necessitated the need to come up with strategies geared towards tackling these challenges, and one of the solutions arrived at is the provision of micro-insurance which gives the insurance providers the advantage of product differentiation, while enhancing insurance penetration at the same time.

The respondents in this study were requested to shed light on the various micro-insurance strategies their respective insurance companies have adopted as a means to increase sales and improve the rate of insurance penetration. The collected data gave the indication that there were variations in the type of micro-insurance strategies adopted by the different insurance companies. These findings give the indication that the success of micro-insurance products uptake is heavily reliant on how effective the implementation of relevant strategies geared towards micro-insurance is. For micro-insurance to be the solution to the poor rate of insurance growth, the strategies put in place to support the growth of this class of business have to be effectively implemented.

4.4.1 Innovation and Product Differentiation

Insurance companies make use of innovation and differentiation of their products as a strategy to enable them set their footprint in the market. In a market where insurance products are very similar, an insurance company needs to enhance their product so as to entice customers to chose their products over the others in the market. This calls for innovation and can be achieved by coming up with new products, rebranding products or enhancing the already existing products.

Some of the respondents have identified the need for crop and livestock insurance and have gone ahead to come up with products that not everyone in the industry is willing to venture into. Some of the products include Index Based Livestock Takaful, Single Animal Cover and Bloodstock/ Horse Insurance APA. With this kind of innovation, these companies have the advantage of cost leadership brought about by being pioneers in this class of micro-insurance. Most companies that underwrite micro-insurance business have credit life insurance and personal accident insurance as stand-alone products. A few of the companies under study are giving personal accident insurance to their clients as riders upon the purchase of credit life insurance at no extra cost, making their credit life insurance more marketable than that offered by their competitors.

The other adopted strategy that enabled the insurance companies to reinforce their market footprint was market focus. This refers to focusing on introducing a product to a market with specific preferences and ensuring the products offered address the specific client needs. From the findings of this study, a good example is the personal accident insurance for students on attachment. These are clients with a specific need and their policy had to provide the cover they needed at an affordable price. To meet this need, one of the respondents tailored a Student Personal Accident Insurance that was valid for only 4 months as opposed to the conventional personal accident insurance which was an annual policy. The shorter policy period also made the policy more affordable than the conventional personal accident policy.

4.4.2 Affordable and Flexible Premium Payment

The respondents acknowledge that micro-insurance products that are poorly priced will not enable them achieve a large market share. It is for this reason that they ensure that their products are competitively priced in order to attract the low-income consumers. Most of the products have relatively lower limits and thus makes business sense for the target insurance companies to make their micro-insurance products affordable.

According to the findings of the study, micro-insurance clients are accorded flexibility when it comes to premium payment. There are various options which allow the clients to pay their premiums in portions so as to reduced the financial burden incurred. These included premium financing (IPF) and check-off. With these methods, the premiums are payable monthly instead of annually as is the norm with conventional insurance. Most Kenyans in rural areas do not operate bank accounts. Mobile cash transfer was the solution offered by the respondents to cater for the micro-insurance clients. This is because this mode provides the much needed financial accessibility especially to Kenyans in rural areas. The respondents are therefore tailoring their products with an aim to make premium paymentaffordable, convenient and flexible for their clients and M-pesa comes in handy to provide a solution.

4.4.3 Customer Service

One of the reasons most low-income clients do not have a positive attitude towards insurance is the lack of knowledge of the various insurance companies and the bad reputation insurance companies have. By being available to micro-insurance clients when they need assistance, the respondents provide good customer service to them. The insurance companies ensure they are available to their micro-insurance clients for any enquries concerning their policies and claims in a bid to ensure they are adequately cared for. These insurance companies have dedicated staff who handle micro-insurance client enquiries and this enhances their availability to their clients. Good customer service was also achieved by the respondents in this study by making it easy for the micro-insurance clients to report claims. Instead of the long and complex claim forms associated with conventional insurance, the micro-insurance clients have a simple claim form that is easy to understand and complete. This makes it easier for them to get compensation in the event of a claim.

4.4.4 Use of Technology/ Digitalization

The findings of the study indicated that the target insurance companies marketed their micro-insurance policies through their websites and social media platforms like twitter and facebook. Through the use of technology, they are able to reach a larger population at a low cost. Through these digital platforms, micro-insurance clients are also able to purchase insurance without having to physically visit the insurance companies' offices. They are also able to register their claims through the same platform in addition to receiving their policy documents and premium payment receipts.

4.4.5 Financial Literacy Education

Financial literacy education is another valuable strategy that insurance companies use. Information and educational campaigns targeting low-income earners and informal self-employed small scale traders has proven useful. Through partnering with AKI, one of the respondents arranges educational sessions for the target clients where they educate them on the various risks they may encounter and probable micro-insurance products that could protect them from financial losses arising from these risks. With such information, the clients develop a postive outlook toward insurance and insurance companies and are therefore more inclined to consume the available micro-insurance products.

4.4.6 Channels of Distribution

When it comes to channels of distribution employed by the respondents, the findings of the study indicated that several companies used a combination of distribution channels. Some of the channels of distribution that were employed the respondents included direct sales, agents, partnership, brokers, bancassurance, internet and affinity e.g supermarkets. The channels of distribution employed by the majority of respondents as per these findings was the use of insurance brokers which was closely followed by insurance agents, bancassurance and direct sales. This implies that insurance companies are distributing their micro-insurance products through cost effective channels that give them the opportunity to reach a wide market at the same time. The channels of distribution that were employed by a small number of respondents according to these findings are M-pesa agents and affinity e.g supermarkets. This could be attributed to the fact that these are not conventional channels of distribution and are a relatively new concept so some of the insurance companies are on board yet.

4.5 Extent to Which the Adoption of Micro-insurance Strategies Enhanced Growth of Company Profits

The study analysed the scope to which the micro-insurance strategies enhanced the growth of company profits. Different insurance companies make a decision as to which strategies will be most beneficial to enhancing the uptake of their micro-insurance products. With this in mind, majority of the study respondents (50%) as reflected in table 4.6, indicated that the implementation of the micro-insurance strategies employed by their respective insurance companies promoted the growth of company profits to a great extent. 30% of the study respondents responded that the adoption enhanced the growth of company profits moderately while 20% responded as the growth being enhanced to a very great extent.

These results give the indication that when focus is placed on adopting proper strategies to ensure the development of micro-insurance, the profits of the company grow and this in turn leads to improved ratio between insurance premiums and GDP. Because of the fact that not all strategies suit the needs of all the respondents, each insurance company makes a decision as to which strategies will be most beneficial to enhancing the uptake of their micro-insurance products while considering their target clients.

Table 4.5 Extent to Which the Adoption of Micro-insurance Strategies Enhanced Growth of Company Profits

Extent of Profit Growth	Frequency	Percent
Very Great	2	20
Great	5	50
Moderate	3	30
Low	0	0
Very Low	0	0
Total	10	100

Source: Research Data

4.6 Extent to Which the Adoption of Micro-insurance Strategies Enhanced Insurance Penetration

This study aimed at accertaining the extent to which insurance companies employed micro-insurance strategies to enhance insurance penetration. According to the findings of the study, there were various strategies that several respondents identified that brought about more insurance sales once the insurance providers implemented the said strategies. Improved customer service, tailor made products, use of technology/digitalization, financial literacy education and product innovation were at a mean of 3.00. Financial education and awareness in finacial literacy had a mean of 1.80 each while distribution channels, flexible premium payment and review of product pricing had a mean of 2.25.

Table 4.6 Extent to Which the Adoption of Micro-insurance Strategies Enhanced Insurance Penetration.

Micro-insurance Strategies	**Mean**	**Standard Deviation**
Use of technology/ Digitalization	3.00	0.816
Distribution channels	2.25	1.089
Product innovation	3.00	0.816
Flexible Premium Payment	2.25	0.829
Use of Consultants for Product Development	3.00	0.816
Financial Education to customers	1.80	1.600
Awareness in Financial Literacy	1.80	0.979
Tailor Made Products	3.00	0.000
Improved Customer Service	3.00	0.816
Review of product Pricing	2.25	1.299
Overall Mean	2.53	0.906

Source: Research Data

According to the findings of the study, there were various strategies that several respondents identified that brought about more insurance sales once the insurance providers implemented the said strategies. Improved customer service, tailor made products, use of technology/digitalization, financial literacy education and product innovation were at a mean of 3.00. Financial education and awareness in finacial literacy had a mean of 1.80 each while distribution channels, flexible premium payment and review of product pricing had a mean of 2.25. The deduction that is made from these results is that the target insurance companies were not in agreement as to which strategies yielded the best results in enhancing the penetration of insurance. This could be due to the fact that they each have a different target market with different micro-insurance products for their clients. The insurance companies employ micro-insurance strategies that enhance the uptake of the products they are offering to their clients and this ultimately means the insurance companies will tend to have a disparity in their choice of micro-insurance strategies. This deduction is further compounded by the standard deviation results which were mostly above 1.00 for distribution channels, product innovation, financial literacy education and product pricing.

4.7 Discussion of Findings

This study's objective was to determine how micro-insurance is used as a strategy to enhance insurance penetration and this segment offers a discussion of the results of the study. The study looked at the micro-insurance products that the respondents offered to their clients. The study found that there were specific products that were tailored to suit the needs of the micro-insurance target market. It was noted there was commonality in most of the micro-insurance products on offer, but at the same time there were other products that featured enhanced properties and limits to make them more attractive to the target market. This finding was in agreement with Mangwana (2012) who opined that micro-insurers should protect low-income earners from insurance coverage that was inappropriate by ensuring they offer them products that were suitable and readily available to meet their insurance needs.

The study also looked at the various strategies and channels of distribution engaged in enhancing the uptake of micro-insurance in a bid to increase the penetration of insurance. The study found that the insurance companies employ various channels of distribution to ensure their micro-insurance products are accessible to their target clients. The channels of distribution used include direct sales, agents, partnership, brokers, bancassurance, M-pesa agents, internet and affinity e.g supermarkets. M-pesa agents and affinity e.g supermarkets are channels that were introduced to enhance micro-insurance distribution, but the study found that some insurers do not use them as expected. The reason for this could be the fact that these are not conventional channels of distribution and are a relatively new ventures so some of the insurance companies have not invested in them yet. The study also found that the combination of strategies employed by the respondents varied from one company to another. This was ultimately because the insurers had clients and products that were peculiar and thus no single strategy combination could cater for all the companies. The findings were in agreement with Ndirangu (2015) who opined that various insurers employed different micro-insurance strategies to achieve competitive advantage.

On the implementation of micro-insurance strategies and their impact on the uptake of micro-insurance and subsequent growth of insurance, the study found that there were strategies that deemed beneficial in enhancing the uptake of micro-insurance. Some of the strategies to which the uptake of micro-insurance could be attributed include flexible premium payment, product innovation, improved customer service and use of technology/digitalization. The study's findings were in agreement with Gitau (2013), who opined that consumer education or awareness, improvement of distribution channels, review of products offered, and customer service were factors that would enhance premium growth.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of key findings of the research as well as the conclusions and limitations of the study. It also presents recommendations for further research in line with the objectives of the study.

5.2 Summary of the Findings

The objective of this study was to determine how micro-insurance is used as a strategy to enhance insurance penetration by insurance companies in Kenya. Insurance penetration in Kenya continues to be low and this study set out to find out how micro-insurance is used to remedy this. The study found that the target insurance companies that were keen in the implementation of micro-insurance strategies had their micro-insurance product offering being competitive and thus resulted in a positive growth of the company profits. This would therefore imply that through focusing on growing the uptake level of micro-insurance, insurance penetration is growing as well.

There were various micro-insurance strategies that enabled the insurance companies to increase the uptake of their micro-insurance products as opposed to those of their competitors. The study findings indicated that not all strategies were adopted by all the insurance companies. Some of the strategies that were adopted were innovation and product differentiation, affordable and flexible premium payment, use of technology/digitalization, improved customer service, and financial literacy education. This gave the implication that insurance companies adopted micro-insurance strategies that were appropriate in giving their micro-insurance products a competitive edge over the other competing products in the market.

5.3 Conclusion

The low rate of insurance penetration has been a sore point to stakeholders in the insurance industry in Kenya. The objective of this study was to find out how micro-insurance is used as a strategy to enhance the uptake of insurance in Kenya and thus alleviate the challenge of low-insurance penetration. With reference to the findings of this study, the study concludes that there is a connection between micro-insurance the penetration of insurance in Kenya and that with proper implementation of the relevant micro-insurance strategies, the product plays a role in growing the profits of the insurance companies, and by extension the total written insurance premiums.

From the findings of the study, there are differences in strategies that have been used by various insurance companies to ensure the uptake of micro-insurance. The respondents have different micro-insurance products and different target clients that leads to disparities in strategy combinations by the respondents. Some of the strategies that were included in the study findings are flexible premium payment, improved customer service, product innovation and increasing financial literacy. In as much as different repondents employed different strategies to enhance the uptake of their microinsurance products, the implementation of the select strategies played a role in growing the business. With micro-insurance uptake trends on the rise, it is expected that insurance penetration will also be on the rise.

5.4 Recommendations of the Study

The study recommends that more insurance providers should strive to diversify their insurance portfolio and grow their market share by focusing more on micro-insurance. It was evident from the findings of this study that micro-insurance plays an active role in the growth of the insurance industry and should therefore not take the back seat when it comes to investment and product development. Improving the administrative capacity and engaging in concerted marketing ventures will be a key success factor that would enable insurance companies to make sales in micro-insurance. Not only will this improve the said companies' performance, but will also play a great role in enhancing insurance penetration as a whole.

The study also recommends that insurance providers actively implement the various strategies that enhance the uptake of micro-insurance to increase micro-insurance sales. This will not only enhance portfolio diversification, but will also lead to higher profitability which could be achieved through mass market consumption. It is evident that climatic changes leading to extended drought periods and floods have led to food and income insecurity. For this reason, it was noted that one area where insurance firms should emphasize on is product innovation in the agricultural and livestock micro-insurance products. These products could be beneficial to both the clients and the insurance providers if they are structured through the guidance of the Weather Index Insurance. Some of the insurance companies that offer micro-insurance have developed a few livestock and agricultural products and this is a clear indicator that there still is more that needs to be done to grow this segment.

5.5 Implications for Policy and Practice

Low penetration of insurance in Kenya is a challenge that no one entity could alleviate without the full support of the stakeholders in the insurance industry. There has to be concerted and intentional effort by all concerned parties to find a lasting solution to this challenge. This study has tried to shed more light on to how micro-insurance is employed by various insurance companies to enhance insurance penetration in Kenya. The findings of the study indicate that with proper implementation of micro-insurance strategies, micro-insurance has played a role in growing the written premiums.

These findings would be beneficial to excecutives of insurance companies as they could act as pointers to the various micro-insurance strategies that have been instrumental in the growth of premiums for their competitors and implement the same if they fit into their product offering. From the recommendations of this study, these excecutives could also pick up areas that require further emphasis especially in innovation and product development which they could work on in their respective companies. These findings would also be beneficial to other insurance players as they could apply these strategies on other products in a bid to enhance their performance. The findings of this study contribute to the current knowledge bank on micro-insurance and would be a valuable reference point for future research on micro-insurance, strategy and insurance penetration.

5.6 Limitations of the Study

The researcher encountered various challenges while conducting the study. One of the challenges was getting the respondents to fill in the feedback forms in a timely manner. The target respondents had very busy schedules and this made it challenging for them to fill in the questionnaires within the stipulated timelines. Some of the respondents were not comfortable providing information about the company for fear of breaching the confidentiality clause of their employment contracts. Some were not open to sharing the micro-insurance strategies their companies used for fear of divulging this information to their competitors. This in turn created a limitation to the validity, extent and reliabilty of the information availed to the researcher.

Due to unavoidable circumstances, the mode of dissemination of the data collection instrument was through email. This posed a challenge to the researcher as follow up questions or questions that were omitted in the questionnaire could not be presented to the respondents. The respondents could have provided further information if the researcher was in a position to physically interact with them during data collection. This shortcoming inturn limited the extent of information collected from the respondents. The research respondents were drawn from the insurance companies that are registered to transact micro-insurance business in Kenya. The research did not extend to other players in the insurance industry like the re-insurance companies. It is therefore not possible to generalize the findings of this study or to accertain that they would apply in other contexts.

5.7 Suggestions for Further Research

This study was focused on insurance companies offering micro-insurance products in Kenya. The reasearcher would suggest that further studies be carried out to include other market players like the re-insurance companies, agents and brokers who play a key role in ensuring the success of micro-insurance. This will give a wholistic picture on the contribution of micro-insurance towards insurance penetration in Kenya.

One of the limitations of insurance penetration in Kenya is lack of financial literacy and general knowledge of the insurance solutions available to low-income earners. The researcher would suggest a study on the causes of illiteracy and ways of enhancing insurance literacy. Additionally, further research on other ways to improve the rate of insurance penetration, encompassing a bigger context than that addressed by this study could be a valuable addition, as the scope of this study did not conclusively address this challenge. It would also be prudent to carry out a study to determine what kind of policies policy makers and insurance providers could implement to ensure the products being rolled out into the market appeal to the target clientelle, as this would ensure that the products meet the specific needs of the clients. The researcher suggests the study to be carried out with input from representatives of the target market.

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APPENDICES

APPENDIX I

Questionnaire

This questionnaire aims to collect data on micro-insurance as a strategy for enhancing insurance penetration in Kenya. The information collected shall be solely utilised for academic purposes and handled confidentially. Kindly provide requested information in the questionnaire by ticking (√) on the provided choices and/or fill in the segments requiring your personal opinion in the blank spaces provided.

SECTION A: Respondent's profile

Kindly fill in all the questions by either ticking in the boxes or writing in the spaces provided.

1. Name of the insurance company…………………………………………………

2. Number of years you have worked in the company in your current role.

Less than 3 years ( ). 3 - 5 years ( )

6-10 years ( ) more than 10 years ( )

Part B. Micro-insurance business

1. For how long has your insurance company been in operation in Kenya?

a) Less than 5 years ( ). d) 16 – 20 years ( )

b) 6 – 10 years ( ). e) over 20 years ( )

c) 11 – 15 years ( )

2. For how long has your insurance company engaged in micro-insurance business?

a) Less than 3 years ( ) b) 5 years ( ) More than 5 years ( )

3. Which specific micro-insurance products does your company sell?...

....

4. What mode of premium payment does your insurance allow for micro-insurance clients?

a) Cash ( ) (d) Check-off ( )

(b) Cheque ( ) (e) Insurance Premium Financing ( )

c) Others (Specify)……………………………………………………………………

5. What is the frequency of premium collection for your micro-insurance products?

a) Daily ( ) c) Monthly ( ) e) Annually ( )

b) Weekly ( ) d) Semi-annually ( )

6. How has the uptake of your micro-insurance product(s) been over the last 5 years ?

a) Fast ( ). b) Moderate ( ) c) Slow ( )

7. Who are your main competitors?…………………………………………………

8. What would you say about your micro-insurance product(s) in terms of market share?..

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Part B. Micro insurance strategies

1. What are the current micro-insurance strategies adopted by your company?...

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2. When were the strategies formulated?..

3. What is the implementation level of the above-mentioned strategies in your company?

a) Very good ( ) b) Good ( ) c) Average ( ) d) Poor ( )

4. To what extent has adoption of these strategies led to growth in company profit?

a) Very great extent ( ) b) Great extent ( ) c) Moderate extent( ).

d) Low extent ( ) e) Very low extent ( )

5. Which of the channels below do you use in the distribution of your micro-insurance products?

a) Agents ( ) e) Partnership ( ) h) Affinity e.g Supermarket ( )

b) Brokers ( ) f) Mobile phone ( ) i) Direct sales ( )

c) Banc assurance ( ) g) Internet ( ) j) M-pesa Agents ( )

d) Others ( )

Please specify………………………………………………………………………

6**.** To what extent does your insurance company utilize the micro-insurance strategies below? Use a scale of 1-5 whereas 1= no extent and 5= very great extent (Kindly tick (✓) as appropriate.

Micro-Insurance Strategies	**1**	**2**	**3**	**4**	**5**
Use of technology/ digitalization					
Distribution channels that promote access to micro insurance					
Capacity Building					
Product innovation					
Flexible premium payment					
Use of consultants for product development					
Offering financial education to customers					
Increasing awareness in financial literacy					
Tailor made products					
Improved customer service					
Review of product pricing					

7. To what extent does the employment of the following micro-insurance strategies by the insurance company play a role in enhancing insurance penetration? Use a scale 1-5 whereas 1= no extent and 5= very great extent (Kindly tick (✓) as appropriate.

Micro-Insurance Strategies	**1**	**2**	**3**	**4**	**5**
Use of technology/ digitalization					
Distribution channels that promote access to micro insurance					
Capacity Building					
Product innovation					
Flexible premium payment					
Use of consultants for product development					
Offering financial education to customers					
Increasing awareness in financial literacy					
Tailor made products					
Improved customer service					
Review of product pricing					

8. Please note down any other relevant strategies that could be instrumental in increasing insurance penetration by micro-insurance products providers.

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Your participation is sincerely appreciated.

APPENDIX II

List of Insurers Licensed to Deal with Microinsurance in Kenya

1. AAR Insurance Company Ltd
2. AIG Kenya Insurance Company Ltd
3. Allianz Insurance Company of Kenya
4. Britam General Insurance Company Ltd
5. ICEA Lion General Insurance Company Ltd
6. CIC General Insurance Company Ltd
7. UAP Insurance Company Ltd
8. APA Insurance Company Ltd
9. Madison General Insurance Company Ltd
10. Mua Insurance Company Ltd
11. Xplico Insurance Company Ltd
12. Pacis Insurance Company Ltd
13. Takaful Insurance of Africa Ltd
14. The Monarch Insurance Company Ltd

Source:

Insurance Regulatory Authority (IRA), (2020).