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**TO IDENTIFY A FRAMEWORK FOR ADOPTION BY INSURANCE  
INDUSTRY FOR ENHANCING INSURANCE PENETRATION**

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**MBA/81970/14**

**A Thesis Submitted to the School of Business in Partial fulfillment of the  
Requirement for the Degree of Masters of Business Administration**

**VT OMNES VNVM SINT**

**School of Business**

**Strathmore University**

**Nairobi, Kenya**

**April 2016**

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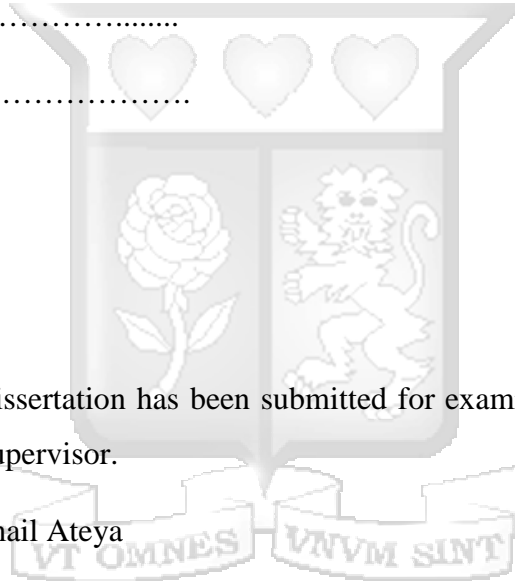
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Kevin Barasa

Reg. No. MBA/81970/14

Signed .....

Date .....



**Approval**

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

Name: Prof. Ismail Ateya

Sign.....

Date .....

## Abstract

In the Kenyan vision 2030 economic blueprint, the government has set out clearly the need for a comprehensive access of insurance services for all people in a country regardless of their socio-economic levels. The need to be covered by insurance is essentially higher for people on the lower-end of the income structure as they are prone to a myriad of problems such as illness, unexpected loss of income and vulnerability to a host of misfortunes. Hence, this provokes a need within the business environment to bridge the gap of insurance services inclusion to this group of people who have a dire need for the cover. In the market, insurance industries have been struggling to exert their presence among this group of clients to no substantial gain. It is due to this challenge that this study seeks to propose a framework that if adopted geared towards promotion of better insurance uptake.

The research utilized determinants, challenges and strategies as the parameters that will help to measure the insurance penetration. The theoretical background of this study was based on the agency theory, and utility theory. The empirical review was enhanced through an analysis of previous studies on the select topic. This research adopted a cross-sectional study design where data will be collected using structured questionnaires and data analysis conducted using SPSS. The data was presented using tables, charts and bar graphs where possible. Based on previous research findings showed that outlook reports this study will seek to come up with a framework that will enhance insurance penetration. The validation of the framework was carried out with the help of four selected insurance firms. Findings showed that the predictor variables (Determinants, challenges and strategies) were attributed to 72% changes in insurance penetration.

The validation of the framework showed that the framework can be utilized by insurance firms towards enhancing insurance penetration. Findings from the research showed that technology, customer awareness, pricing, government intervention, regulatory framework and innovation were the key determinants of insurance penetration. The main challenge to insurance penetration were identified to be poor customer awareness, marketing and distribution channels, lack of government/regulatory support. The majority of the respondents also felt that insurance firms lagged behind in terms of differentiating their products hence constrained customer preference. Findings also showed that the main strategies that can extensively enhance insurance penetration were government involvement, pricing and forming strategic alliances. The researcher recommends that insurance firms should engage the government and the regulator in drafting new laws meant to foster insurance penetration. The study further recommends adoption of new technology that will foster better product innovation, customer handling and better differentiation of products.

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I also with heartfelt joy appreciate all the efforts of my supervisor Dr. Ismail Ateya Lukandu, the words of wisdom and impacting of knowledge has gone a long way in ensuring this research proposal was a success.

Finally, I acknowledge the help given by my family members in ensuring that I finished this project an ample environment and all the time they sacrificed to make this journey a success.



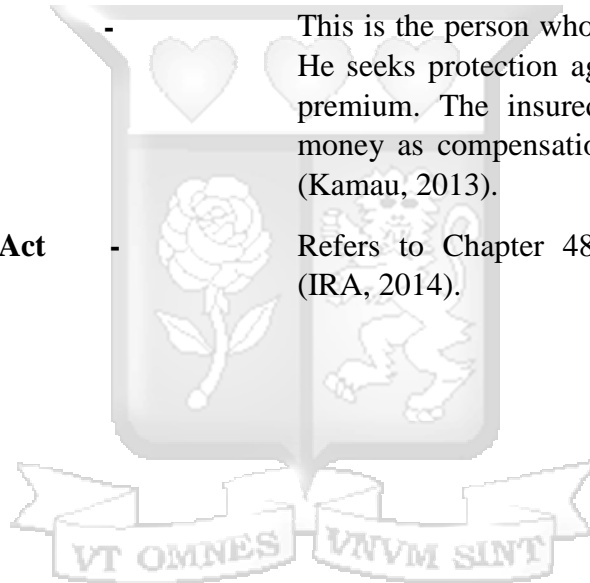
### Abbreviations/Acronyms

<b>AKI</b>	- Association of Kenya Insurers
<b>GDP</b>	- Gross Domestic Product
<b>IAIS</b>	- International Association of Insurance Supervisors
<b>IRA</b>	- Insurance Regulatory Authority



## Definition of Terms

- Insurance** - A contractual relationship between two parties in which one party, the insurer, is paid a premium by the other party, the insured. In return for the premium, the insurer promises to indemnify the insured in the event of a covered loss (IRA , 2013).
- Insurer** - This is the party that agrees to pay money on the happening of the contingency. Usually, the insurers are the insurance companies (Kamau, 2013).
- Insured** - This is the person who faces a particular risk. He seeks protection against risk by paying a premium. The insured claims and receives money as compensation in the event of loss (Kamau, 2013).
- Insurance Act** - Refers to Chapter 487 of Laws of Kenya (IRA, 2014).



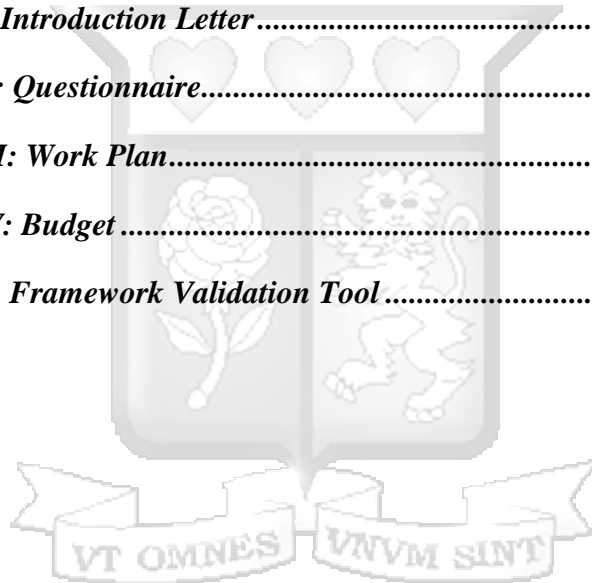
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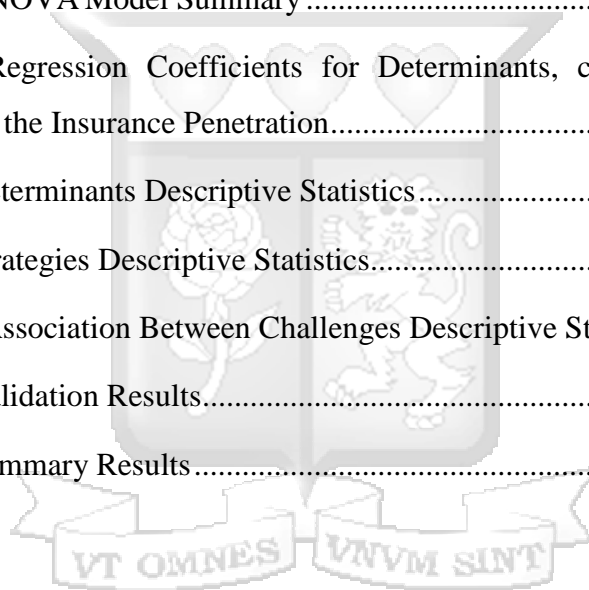
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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background to the Study

Insurance is the process through which individuals known as insurers accept the financial risk of another individual/corporate insured for consideration in the form of premiums paid (Dorfman & Cather, 2012). Within any given economy, the insurance industry is an essential agent for sustainable economic growth and development (Haufler, 2013). However, locally the penetration levels within the insurance industry have been relatively low as compared to other parts of the world (Kamau, 2013); the majority of the insured locals are in the formal sector (businesses, parastatals, and other organizations) which accounts for more than 6% of the total insured population as compared to the informal sector (Households, small firms, and businesses) which has an insurance coverage of roughly 4.1%, thus, it is evident the majority of the population is uninsured. As such there is a need for the government, the regulatory authority and the insurance market players to rethink a model that will see the market being able to tap into the widely unreached market that has the potential to transform the local economy in folds (Insurance Regulatory Authority, 2014).

A measure of the development of the insurance sector is insurance penetration, defined as gross premium income (GPI) as a percentage of GDP (Ndal, 2011). Insurance penetration rate is therefore expressed as the ratio between insurance premium volume and the national gross income (Kiragu, 2014). The penetration level can be estimated for life insurances or other specific insurance classes. The insurance level of penetration is a direct measure of the whole development of the insurance industry within a country. Generally the larger the extent of the penetration level the higher is the development of the insurance industry in a particular economy (Ngoima, 2013).

According to the quarterly report by IRA, (2015) the insurance premiums grew by 16.4% standing at 54 billion shillings. However, in the same period the AKI (2014)

report shows that the overall insurance penetration level dropped to 2.93% in 2014 against a high of 3.44% in the year 2013. This was largely attribute dto the rebasing of the Kenyan GDP in the same period under review. The AKI report further, acknowlegde shortcomings in the insurance industry in terms of enhancing insurance uptake bearing in mind that there are more opportunities for insurance uptake in the oil market, real estate and infrastructure.

Cole (2013) studied the relationship between demand for life insurance with national per capita income and employment rate and found that the dependent variable has a positive relationship with the independent variables. World Bank report (2011) estimates that 1.2 billion (20%) of the world people live on less than a \$1/day (extreme poverty), another 1.8 billion (30%) lives on less than \$2/day (moderate poverty). This then calls upon insurance companies to be innovative in terms of products suitable for the micro-insurance target market. Churchill (2007);

According to the AKI (2013) the Kenyan economy grew by 4.7% in terms of the gross domestic values as compared to the previous financial year growth of 4.6%. this unprecedented growth was supported by a robust macroeconomic framework; that saw decreased inflation, low cost of basic goods, reduced oil prices, reduced electricity tariffs and costs as well as rapid infrastructural development. The insurance penetration stood at 3.44% as expressed in terms of gross premium in relation to the gross domestic product.

The insurance industry in Kenya comprises of insurance companies, reinsurance companies, insurance and reinsurance brokers, loss adjusters, motor assessors, insurance investigators, insurance agents, medical insurance providers, claims settling agents and risk managers. These are registered and licensed by the Insurance Regulatory Authority (IRA) in accordance with the provisions of the Insurance Act, Chapter 487 of the governing laws of Kenya. According to IRA's annual report (2014), the licensed insurers were forty-nine (49), three (3) reinsurance companies, one hundred and ninety-three (193) insurance brokers, twenty-two (22) medical insurance providers, and four thousand six hundred and ten (4610) insurance agents.

In addition, the service providers are one hundred and twenty-three (123) (IRA, 2014).

## **1.2 Statement of the Problem**

The insurance industry all over the world is showing tremendous advancement as far as the development of new products, as well as technological advancement, is concerned (Olayungbo & Akinlo, 2016). In Kenya, however, there has been a little success as far as market penetration by insurance is concerned. More troubling is that globally there has been a low growth in the penetration of insurance with a slump of 0.7% bringing the global average penetration to 1.6%. However, within the North American nations and parts of Western Europe there has been more than moderate growth in insurance uptakes despite the economic slumps that have clogged the regions in recent years (AKI, 2013).

In a study by Njihia (2013) on the penetration of insurance in the local market, he found out that this is widely influenced by both external and internal factors in play within the economy. Some of the major factors, as he highlighted as the main deterrents of insurance penetration, are; government regulations, lack of insurance products differentiation, lack of strategic alliances, the first mover advantage, information asymmetry as well as high switching costs. In a similar study by Onduso (2013), she highlights that the main limiting factor in insurance penetration in Kenya is the low income of the majority of the residents. Further, she identifies the perception by the locals of the perceived complexity of accessing insurance services as a constraining issues as well as the generally initiative factors in the marketing by Insurance firms. From the above studies, its evident that there are numerous bottlenecks that are hindering better penetration levels. This study will seek to fill this gap by highlighting the factors that would enhance insurance penetration and build on the same in proposing a framework which if adopted would lead to better insurance penetration levels.

The need for greater insurance penetration has been underscored by economic surveys. Insurance penetration has remained low not only in Kenya but in Africa as a whole. This issue remains a key concern for insurance practitioners and scholars as

well as policymakers (Gitau, 2013). In 2013, the Kenyan economy grew by 4.7% compared to 20.40% growth in gross written premium while the insurance penetration increased to 3.44% compared to 3.16% in 2012 (AKI, 2014). This percentage is quite low when compared with the higher percentage increase in the gross written premiums and the corresponding rising national GDP. The paradox of realities is that the insurance companies continue to report double-digit growth in gross written premiums, but the insurance penetration levels remain low.

The low insurance penetration highlights the significant opportunities that exist in the Kenyan insurance market (AKI, 2013). These significant opportunities need to be realized. This study will, therefore, aim at proposing a framework that attempts resolve this paradox of realities and enable the economy to realize the opportunities.

### **1.3 Research Objectives**

- i. To identify the key determinants of insurance penetration in Kenya.
- ii. To identify the challenges of insurance penetration in Kenya.
- iii. To analyze the strategies and models that are in use in Kenya to enhance insurance penetration.
- iv. Recommend a framework for adoption in the insurance industry to enhance penetration in Kenya.

### **1.4 Research Questions**

- i. What are the key determinants and challenges of insurance penetration in Kenya?
- ii. Which are the strategies and models in use in the Kenyan Insurance industry to enhance penetration?
- iii. What is the recommended framework for enhancing insurance penetration?
- iv. How valid is the proposed framework towards enhancing insurance penetration?

### **1.5 Justification**

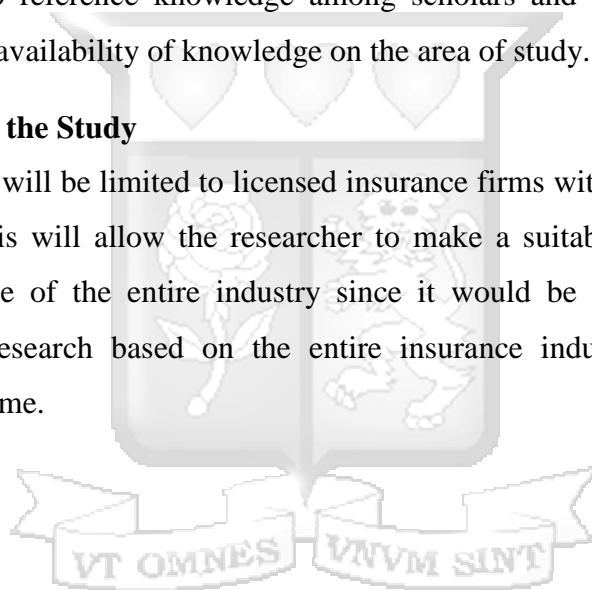
The Kenyan economy has been undergoing tremendous growth and development. However, despite this growth in the economy, the insurance industry has not enjoyed the benefits of this expansion. This trend has prompted the researcher to

study the factors that influence insurance penetration and develop a framework analysis to be adopted by the insurance industry in enhancing their penetration.

The findings of this study will form a basis for policy makers in the regulatory authorities to come up with new policies and regulations geared towards supporting better insurance penetration. Further, the findings of this study will contribute to the wealth of knowledge available to management of insurance firms that will be of key support in formulating new organization goals/policies aimed at enhancing insurance penetration. The study findings will be further integral in highlighting the shortcomings within the insurance industry. Lastly, the study findings will contribute to reference knowledge among scholars and academicians which will enhance the availability of knowledge on the area of study.

### **1.6 Scope of the Study**

The study will be limited to licensed insurance firms within the Kenyan insurance industry. This will allow the researcher to make a suitable sample size to be the representative of the entire industry since it would be practically impossible to conduct a research based on the entire insurance industry in Kenya within a reasonable time.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

The second chapter of this study contained the description of the state of the insurance industry in Kenya in the first section. The second section reviewed all the empirical literature connected to the research problem. The last section illustrated the perceived relationship between the study variables through a conceptual framework.

#### 2.2 Theoretical Foundation

The standard utility theory demonstrates that risk-averse investors will choose to purchase insurance at actuarially fair values and that they will be willing to pay a premium load in excess of the actuarially fair premium based on their level of risk aversion and their corresponding wealth level (Brau, Merrill, & Staking, 2010). Under expected utility theory, it is assumed that demand for insurance is higher for risk-averse individuals who use insurance to avoid the risk of loss (Manning & Marquis, 1996). Expected utility theory explains demand by referring to insurance product characteristics (premium and payouts), socio-economic characteristics and assumes that individuals are capable of objectively assessing the probability of risk. This theory lays the foundation to the determinants of insurance uptake. In general, the perceptions of any risk-averse client will be determined by the cost being incurred and the benefits being achieved. Pricing insurance at a higher value will deter low risk-averse clients who presume there are smaller benefits to be achieved from the uptake of the insurance cover.

According to the agency theory an agent is an individual who represents another individual known as a the principal in making transactions on their behalf. The agent-principal relationship (agency) is born once the principal offers implicit or explicit. Problems with the agency principal relationship arise due to inefficiencies in the market and lack of adequate information.

This study is based on the principal-agent theory developed by Logan, (2000) which is founded on the premises of separated ownership and the

supervision/control of economic resources by agents. He explains the agency theory is on developing the most efficient contract governing the principal-agent relationship assuming self-interested people and corporations. The assumptions of the agent theory about the agent's behavior are negative.

The principal is assumed to be risk neutral since they can diversify their risk through their investments. The principal, therefore, adopts various incentives systems i.e. outcome based e.g. rewarding agents upon reaching set targets by offering them stock options or behavior based incentives. The theory postulates that various agency problems may arise, such as asymmetric information between the principal and the agent, conflicting objectives, differences in risk aversion, outcome uncertainty, behavior based on self-interest, and bounded rationality. The theory further argues that the contract between the principal and the agent governs the relationship between the two parties, and the aim of the theory is to design a contract that can mitigate potential agency problems.

### **2.2.1 State of Insurance Industry in Kenya**

As indicated in the 2013 insurance industry report by the Insurance Regulatory Authority (IRA), key growth areas are the development of niche markets, overall business volumes, and product marketing (Mose & Kuloba, 2013). According to Cytonn Investment, (2015) report on the insurance industry analysis the penetration levels for the Kenyan industry have stagnated at an average of 3% over the last decade. This is in contrast to the increases that have been recorded in growth of gross premium. In comparison to other countries in the middle-income category the Kenyan insurance penetration level trails the South African Market which stands at 14%. More, perplexing is the fact that countries with smaller GDP than Kenya such as Mauritania and Namibia have penetration levels of 6% and 7.2% respectively.

The main insurance growth drivers were marketing (21%) driven largely by the acquisition of new markets, expanded branch networks by insurance firms, better distribution channels and greater innovation within the industry. Staffing and Management (both at 14%) was boosted by better staff retention programs, quality assurance development, teamwork and enhanced motivation within the industry.

Through enhanced internal controls and better business operations, the management of insurance industries was able to enhance the growth within the economy (IRA , 2013).

### **2.3 Empirical Review**

This section will dwell on an empirical investigation of previous studies in line with the objectives of this study. The empirical analysis enabled the researcher to map the gaps in the previous study and how best solving the research problem in question will foster insurance penetration.

#### **2.3.1 Determinants of Penetration**

In this section the researcher reviewed the determinants of insurance penetration within the Kenyan industry. In line with Cytonn Investments (2015) and IRA (2015) the main drivers for growth in the insurance industry are expansion of the service offering, favorable demographics, alternative distribution channels, innovation and a robust regulation and compliance requirements for the industry. In this study, the researcher conceptualized the determinants of insurance uptake as; legal and regulatory framework, the client awareness, the marketing channel and the level of income.

##### **2.3.1.1 Legal and regulatory framework**

The regulatory environment for insurance depends on the country, institutions, and products involved. Makove, (2011) reports that for insurance to develop, there is a need for regulations for the insurance industry that should typically specify the delivery channels, intermediary market, registration and product approvals. Njuguna and Arunga, (2013) avers that the factors like minimum capital requirements, licensing, distribution channels and investment restrictions that are designed for higher-income markets and seem to limit the provider's ability to offer insurance to low-income customers. Generally, appropriate legal infrastructures not only safeguard the interests of policyholders but also minimizes institutional risks.

Research conducted by Kamau, (2013) says that that the regulatory environment cannot explain the level of insurance penetration. Other studies contradict this position. According to IAIS, (2008), regulation is beneficial, but enforcing the laws

of conventional insurance on micro-insurance will hinder the growth of the sector. Njuguna and Arunga, (2013) have pointed out that while liberal insurance legislation results in expansion of insurance services, rigid legislation can hamper the growth of insurance business. Saleemi (2010), states that the purpose of law in society is to establish procedures and regulations regarding the dealings among individuals and maintain economic stability. In the absence of law, there will be uncertainty in commercial transactions.

### **2.3.1.2 Client awareness**

In 2009 a research by the German Institute for Economic Research highlighted a potential challenge to developing the insurance sector: creating awareness among the customers. The study points out that as demand for insurance is correlated to the customer the perceptions of the end-advantages, a clear awareness of what insurance is all about is essential to avoid discouraging the customers.

According to Kamau (2013) the contribution of education to the low insurance penetration is quite significant. According to the Micro-Insurance Center policy paper (2009), many low-income people are insurable in that they have assets and livelihoods to protect, and sufficient incomes to pay premiums. However, they do not have insurance, as they are unfamiliar with the concept of insurance as a risk management tool.

According to Njuguna and Arunga (2013), many individuals are not comfortable making periodical payments on an a benefit they cannot see and often the claims may not be realized if no loss occurs hence they often do not trust insurance companies. A study by Siegel (2010) found that some insurance firms provide information and conduct education campaigns within the poor households on the potential benefits of subscribing to a micro-insurance or any other insurance product. According to Morelli (2010), for insurance schemes to succeed, it needs to satisfy, among other conditions; comprehensibility and understandability by the clients.

### **2.3.1.3 Marketing Channel**

According to Njuguna (2013), one of the risks inherent in micro-insurance is the inadequacy of distribution channels. Roth, (2007) reveals that micro-insurance products are generally distributed through Microfinance institutions (MFIs), post offices, Non-Governmental Organizations (NGOs) or through company employees. Ngoima, (2013) in his study attempts to answer the question on the role of agents in insurance penetration. He classifies agents into brokers and agents. Micro-finance institutions and commercial banks are also directly involved in marketing micro-insurance products to potential clients in the provider model (Maleika, 2008). The study by Maleika; says that this model has a wide reach in the general insurance market but has a limitation owing to the high costs when applied in low-income, low-margin markets such as rural areas with dispersed populations. Osero (2009) suggests funeral parlors, direct selling, mobile services, shops, supermarkets, petrol stations and public utility companies as distribution channels that can be explored for microinsurance delivery. Micro-insurance charges low premiums hence the distribution costs must be minimized (Mahul & Stutley, 2010).

Insurers are often constrained by lack of low-cost distribution channels that can reach low-income earners target market Njuguna and Arunga (2012). Makove, (2011) in his research has addressed the need for government support in providing micro-insurance products. The Kenya Micro-Insurance Policy Paper (2014) points out that for micro-insurance to succeed, there should be a model for sharing the costs and profits with distributors due to regulatory restrictions as the mass aggregators see little potential in terms of revenues from micro-insurance business.

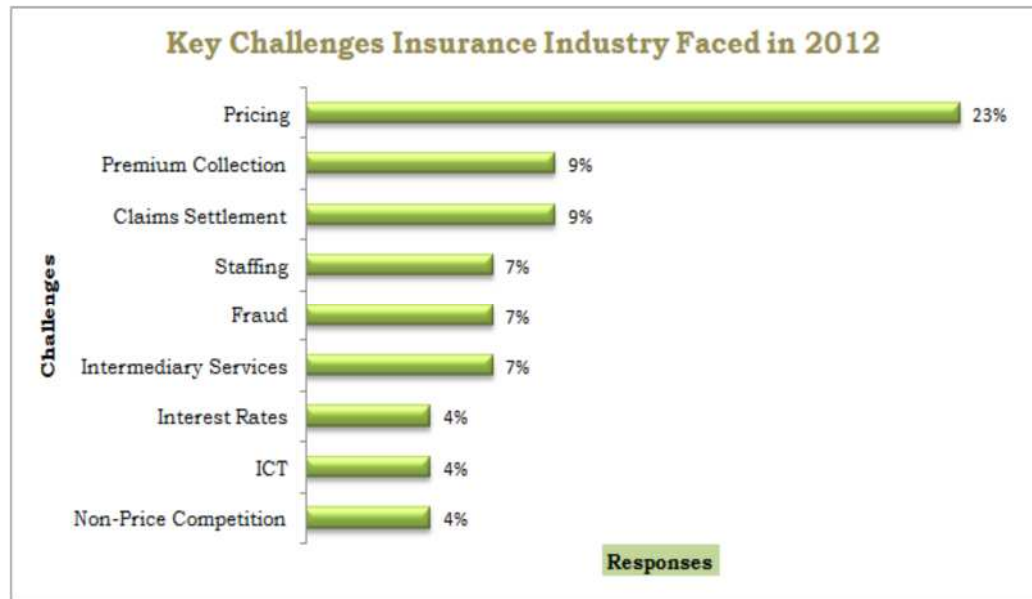
### **2.3.1.4 Level of Income**

Dalal and Morduch, (2010), found out that one major challenge in microinsurance provision arises from the target market that consists of self-employed people and workers in the informal sector whose incomes are often low and unpredictable. They further found that most microinsurance models allow for the contribution of small-denominated high-frequency premiums, which have a direct effect on per unit transaction costs. The research concluded that policyholders should be asked to pay

when they have the money for example at harvest time, or when they receive a loan or a government cash transfer.

### 2.3.2 Challenges of penetration

This section reviews the challenges facing the insurance sector with regard to enhancing insurance penetration. The challenges to insurance penetration were conceptualized through; product offering, pricing and customer service.



**Figure 2.1 Challenges of Penetration (IRA , 2013)**

According to the Insurance Regulatory Authority (2013) findings on figure 2.2 above the main challenge that faces the insurance industry is the pricing with a composite percentage of 23%. The majority of Kenyans live below the poverty line and thus view the premium payments as a burden to their already constrained consumption package. The second challenge identified is the premium collection (9%) that is undertaken by insurance firms. The main aspects of the premium collection that hinder the insurance industry are high costs of collections coupled with late payments which pose a challenge to the strategic plans of insurance firms. Due to both internal and external factors, the claims settlement also is a major challenge to the insurance industry which is highly created by unscrupulous dealers and clients who are out to swindle insurance firms as well as internal inefficiencies which hinder the claim settlement process.

Staffing (7%) is also challenged by the insurance industry mainly through lack of sufficient personnel to drive product innovation and marketing strategies for the firms thus, hindering the industry growth. Similarly, fraud (7%) constitutes a challenge to the insurance industry especially in the motor car insurance whereby clients in cahoot with police and underwriters are constantly reaping off insurance firms with fake accident claims. Intermediary services (7%) have also been a challenge to the insurance industry as they result to inefficiencies within the marketing and distribution strategies of insurance firms.

Lastly interest rates, ICT and non-price competition all at 4% pose the minimal challenge to the insurance industry. Due to lack of diversification and constant innovation within the industry, there has been the minimal integration of technology as well as the constitution of non-price competition strategies. On the other hand, the country has experienced moderate macroeconomic shocks which have kept the interests rate fairly stable thus, has not been such a major challenge to the insurance industry.

### **2.3.2.1 Product Offering**

Product development, as well as marketing efforts, focuses on meeting the local demand for insurance products. This means that good product offerings and effective marketing are likely to result in a successful savings mobilization program, which will then lead to growth in the institution (Paul, Cordo T., Dipiazza, M. C. Duffy. P., & Weber, 2014). The initial step in determining how best to meet client demand for insurance products is to establish what clients and potential clients want. Once such information is acquired, insurance managers need to evaluate the existing products in order to see if they meet those demands. Various information sources can be used to evaluate products and services, this include, staff observations, competitor activities client complaints, market research as well as national financial market behavior. If indeed the existing products are not likely to meet the demand for insurance products then it follows that new products have to be developed so as to fill the void (Cortor and Chen, 2006).

### **2.3.2.2 Pricing**

Within a marketing mix, price constitutes the 4 p's (Brassington, 2011). Pricing is the process of applying an economic sacrifice on a product sacrifice that is reflected through the monetary value assigned to the amounts or quantities required. Price varies with season, amount of goods being bought and the overall sales strategy of a firm. A well-chosen price should achieve the financial goals of the company of the firm such as profitability; capture a specific market, growth, and sustainability. The price is affected by factors such as the sales strategy i.e. promotions, advertising, the need for the markets and the competitors. Setting a low price at times allows the firm to gain better market share, and the price can at times sacrifice the consumers need for quality or the firm incurring high advertising and promotion costs (Jobber, 2010). The insurance consumer is conscious about how much they pay for their goods and services. How much to charge for a product or service is usually a typical starting point question for discussions about pricing, however, a better question for a vendor to ask is - How much the customers value the products, services, and other intangibles that the vendor provides. Generally, companies' use pricing as part of their positioning, employing one of three strategic approaches premium pricing, value for money pricing and undercut pricing (Dickman, 2009).

### **2.3.2.3 Customer Service**

There are many ways in which insurance companies can enhance their customer experiences (Stone, 2009). Offering additional services and better customer relationship is often considered as an added benefit in buying the products of a company (Burns, 2011). According to Hunter, (2012) customers have the tendency to feel more positive about a particular brand of insurance to which they had previous good experience dealing before, during and after the sale had been consummated. According to Burns, (2011) customer service is free and should therefore not be part of any add-on on services offered by a company on their products or services. Customer service needs, therefore, fulfill the deepest needs of customers. As such, customer service is meant to enhance the main offer of insurance and is in itself not the main offer. It is a pleasant bonus that business

companies offer their customers to reinforce the message that the business company cares about their expectations, needs and wishes (Burns, 2011). Insurance firms should be able to quickly identify customers' activities through management. An information system that accurately reports and monitors such activities. They, therefore, need to follow up with the clients to communicate with them any message that is relevant to the customer in a timely manner. Follow-up procedures may involve visiting the client, scheduling weekly staff meetings to discuss customer issues and decide on the correct action as well as the suitable communication channel to use for their clientele (Ledgerwood, 2009).

### **2.3.3 Models/strategies in Use**

This section reviews the models and strategies that the insurance players can adopt to enhance insurance penetration within the industry. This section reviewed the strategies of product innovation and strategic alliances within the industry.

#### **2.3.3.1 Product Innovation**

Innovation and technology in the insurance sector have been necessitated by the need to be competitive in a global environment. According to Evanschitzky (2012), the growth of new technologies has been and is indeed critical for the growth and development of economic sectors in terms of providing employment, enhancing productivity, the efficiency of resource use and improving information flow, use of timely, accurate and complete decision-making at policy making level and planning. In the end, adoption of technology by business enterprises contributes positively towards enhancing competitiveness within a competitive environment (Tece, 2010). The provision of cash in an economy has a high but often unseen cost. The government, the reserve bank, and ultimately the citizen do pick up these costs.

#### **2.3.3.2 Strategic Alliances**

Strategic alliances allow firms to procure assets, competencies or capabilities that are not readily available in competitive factor markets particularly, specialized expertise and intangible assets such as reputation. Alliances allow firms to tap into time compression diseconomies and history dependent competencies that are difficult to trade in strategic factor markets (Cartwright & Cooper, 2012)

While competitors can surely be threats, the right competitors can strengthen rather than weaken a firm's competitive position in many industries. Business rivals can play a key role in enhancing the competitiveness of a firm depending on the structures they adopt in terms of selecting a market segment (Porter, 1985); this potential can be further harnessed through two firms coming together to gain a higher competitive edge in the market i.e. ICEA and Lion Group merger.

Ndalu, (2011) studied the relationship between economic growth & insurance penetration in Kenya. The study employed a casual study design with the study period being six years from 2003-2008. Secondary data was obtained from published reports from IRA & CBS reports. The study used simple regression analysis to examine the association between economic growth & insurance penetration, and a forecasting model was developed & tested for accuracy in obtaining predictions. The study by Ndalu; proposed enacting a modern legal framework and designating a special judicial authority to handle insurance related cases as key requirements to enable market development hence increasing insurance penetration and, therefore, overall economic growth.

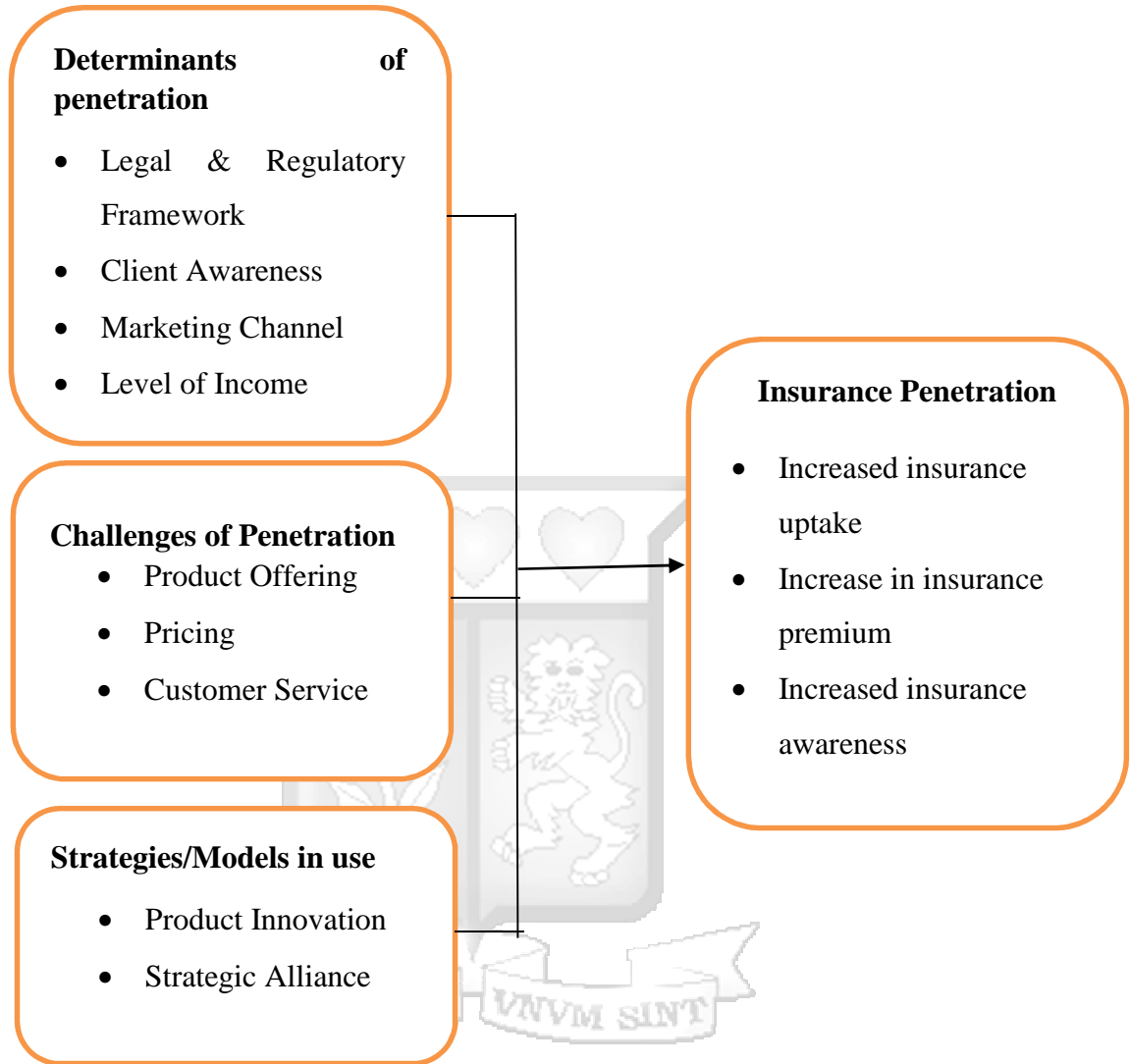
Monsik (2011) researched on informal trust building factors that affect demand for microinsurance and concluded that age, education, sickness, membership of loan from the insurance provider, financial status and credit constraints, risk aversion, and location dummies are important explanatory factors for demand.

## **2.4 Conceptual Framework**

The conceptual framework is a graphical illustration of the proposed interaction between the study variables. The below conceptual framework outlines the proposed interaction between the independent variables and dependent variable of the study and the conceptualization of each of the variables.

**Independent Variables**

**Dependent variables**



**Figure 2.2 Conceptual Framework (Researcher, 2015)**

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

The third chapter of this study represented the methodology that was followed in the course of the research. The chapter consisted of the research design, the target population, the sampling procedures the sample size, the data collection instruments and process, the data analysis, the reliability and validity tests and the ethical considerations that were taken into account in the course of the study.

#### 3.2 Research Design

This study adopted a cross-sectional survey design. This method was an efficient way to obtain information needed to describe opinions and views of insurance companies on the challenges, determinants, and strategies that can enhance the levels of insurance penetration. This method has the advantage that helped in obtaining data from each of the companies which then provided a greater accuracy and reliability.

The respondents were drawn from personnel at the insurance firms who are involved in the corporate strategic planning as they have all the information regarding the penetration of insurance and issues regarding penetration in the Kenyan industry. Further, the researcher targeted 10% of non-listed insurance firms in the validation of the framework. To this end, the design was an efficient way to obtain information needed to describe opinions and views of insurance companies offering insurance services on the factors that play a role in the penetration in Kenya.

#### 3.3 Study population

The population of study refers to the entire group of people, events, or things of interest that the researcher wishes to investigate (Simons. & Helen, 2009). The study population of this study were the 6 listed insurance firms. The study, therefore, adopted a census survey of all the listed firms. The main benefit of using an entire set of the sample in a census survey is that all the target units within a sample are involved thus, avoiding any errors resulting as a result of any systematic or

statistical errors resulting from the sample (Kothari, 2011). The study population were the top management (CEO/MD), finance managers, operations manager, human resources, marketing department heads and risk managers and claim officers. The aforementioned personnel were chosen since they are at the helm of driving the penetration strategies within their respective firms thus, have the required knowledge that was sought in the course of this study.

**Table 3.1 Target Respondents**

<b>Insurance Company</b>	<b>Top Management</b>	<b>Finance Manager</b>	<b>Operations Manager</b>	<b>Human Resources Manager</b>	<b>Marketing Department Head</b>	<b>Risk Manager</b>
Jubilee	3	1	1	1	2	1
Pan Africa	3	1	2	1	1	1
Kenya Re	3	1	4	1	1	3
Liberty	4	1	1	1	1	2
Britam	2	1	1	1	1	1
CIC Insurance	3	1	1	1	1	2
<b>Total</b>	18	6	10	6	7	10
<b>Total Target Population: 57 Respondents</b>						

The study only targeted the listed firms owing to the multi-regulatory frameworks they operate under; the insurance regulatory authority, the capital markets authorities. The firms were selected to be representative of the entire industry owing to their large sizes in comparison to the other smaller firms. The unit of analysis will be the personnel in the six listed insurance firms.

### **3.4 Sample Size**

Due, to the manageable population number of the unit of analysis, the research adopted a census sampling method. Census sampling, allows for the researcher to take into consideration the entire target population thus, enhancing the reliability of the data and its representativeness to the entire population (Olive & Abel, 2010). The sample respondents for the research will be the 57 respondents from the listed insurance firms.

#### **3.4.1 Validation of Framework**

In order to support the validation of the framework the researcher sampled 10% of the non-listed firms the insurance industry. This is in line with Mugenda (2003) cited in Ndalú (2011) who proposed that a sample population of 10-30% of the total target population is adequate for making statistically significant findings which are representative of the entire population. Hence, 10% of the total 49 registered insurance firms give 5 insurance firms to be used in the validation of the identified framework.

### **3.5 Study Location**

The location of the study represents the geographical area in which the research respondents are situated in the study respondents were from Nairobi County. This location was chosen since it has all the desired characteristics for the study. The study area was able to offer variations on the characteristics of the insurance firms since it's within a city where all of the registered insurance firms are based. More so, the location is quite accessible thus making the data collection efficient as well as offer the chance to undertake a pretest which formed the basis for site visits.

### **3.6 Sampling Procedure**

The researcher used purposive sampling technique. This is where the optimum sample size is chosen through purposively selecting staff within the insurance firms who have the knowledge to the extent of insurance penetration to ensure the validity of the data to be collected. The inclusion criteria were based on the need for the sample staff to adequately fulfill the requirements of efficiency, representativeness, and reliability (Kothari, 2011).

Further, the researcher selected another five firms from the non-listed insurance firms to take part in the validation of the recommended framework. This sample size is statistically significant to undertake a relevant testing of the framework owing to the disparities in terms of the firm size, market share, level of competition, as well as the product differentiation/offering.

### **3.7 Data Collection**

The study utilized primary sources of data for analysis. The primary data source was collected using semi-structured questionnaires. The questionnaires had both open and close-ended questions (Kothari, 2011). The questionnaires were administered personally by the researcher to ensure reliability, clarification, accuracy and efficiency. The questionnaire was divided into two parts. The first part sought background information of the respondents while the second and subsequent sections were designed to facilitate achievement of the research objectives. The questions were designed to collect qualitative and quantitative data.

This strategy was chosen since the respondent's main offices can be accessed with ease. Further, this method made the data collection simpler, and the researcher was able to facilitate accuracy in the data collection as the method entailed a personal appeal. Further, the method helped to ensure that all the questions were answered as well as ensure that respondents understood all the parts of the questionnaire. Data collected from the pretest was analyzed and represented using infographics such as tables and graphs. Secondary data was collected through review of print materials i.e. Journals, corporate reports, government reports and studies on insurance penetration conducted by other researchers.

### **3.8 Data Analysis**

The data collected was classified then edited and cleaned to reduce ambiguity. The cleaned data was coded into SPSS 22 for subsequent data analysis through descriptive and inferential statistics. The frequencies from the descriptive statistics were converted into percentages for easier interpretation, further analysis and to assist in infographics presentation. This method ensured the collected data was analyzed comprehensively. The study used multiple linear regression equations, and

the method of estimation was regression coefficients that was applied to develop an association between the study variables (Silverman, 2010).

The significance of the factors was tested at a confidence level of 95%. Correlation analysis was used to describe the degree to which one variable is related to the other. The regression equation was modelled as follows;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where;

Y = Dependent variable (insurance penetration levels)

$\alpha$  = the model intercept

$\beta$  = Coefficient of independent variables

$X_1$ - $X_4$  ( $X_1$  – determinants,  $X_2$  – challenges,  $X_3$  – strategies)

$\epsilon$  = Error Term

This study also generated qualitative data, and content analysis was, therefore, undertaken along the themes of the study. This type of analysis does not restrict respondents on answers and has potential of generating more information with much detail (Krippendorff, 2012).

### 3.9 Validity and Reliability Tests

A research design is a logical process that connects the research questions posed; empirical data collected, and conclusions were drawn. Therefore, the researcher in this study will maximize the aspects of quality design, which include the basic criteria's such as validity and reliability. Validity refers to what extent of data and the ways to receive this data are accurate and real. It's regarded as an essential requirement of measuring tool. It shows the accuracy of the empirical (Kothari, 2011). To ensure the validity of the research tools the researcher conducted a pretest that sought to confirm that; if the same study was taken using the same tools the results would be the same throughout. Validity was measured using the methodology proposed by Crocker and Algina (1986) which calculates validity

coefficients that identify what percentage of variance in the criterion variable is accounted for by the testing measure or predictor variable.

Performing a reliability test is concerned with whether researchers would reveal similar information if they conducted a similar study. This means if the research was to be repeated with the same measuring methods, the conclusions would be the same. Kothari (2011) also states that reliability demonstrates that the operation of a study such as the procedures for collecting data can be redone resulting in the same outcome. To increase reliability in this study, the existing theories were reviewed by different authors and researchers, and then presented and compared. Furthermore, based on the literature review, concepts were carefully defined, and then the frame of reference developed.

To test the reliability and validity of the data collection instruments the researcher conducted a pilot test with the help of three listed insurance firms. This allowed for appropriate reliability and validity tests. The reliability tests were based on the Cronbach alpha which states that an alpha of 0.7 is a standard measure of asserting that the data collection instruments can be used for the research. However, an alpha of less than 0.7 implies that the data collection instruments needs to be reviewed or amended entirely to fit into the research (Nunnally, 1978).

### **3.9 Ethics**

In conducting the data collection, the Researcher/Research assistants will avail a letter of introduction to all the relevant staff to assure them the study is legitimately for academic purposes. This letter of introduction will state the researcher's details as well as the need to conduct the research study and what it is all about. The respondents will be free to either respond or decline to the requests submitted for all the required data and if need be the findings of the study will be availed to them upon request. All information availed for the purposes of this study will be treated with utmost confidentiality. At no point will the respondents be required.

## CHAPTER FOUR

### RESEARCH FINDINGS

#### 4.1 Introduction

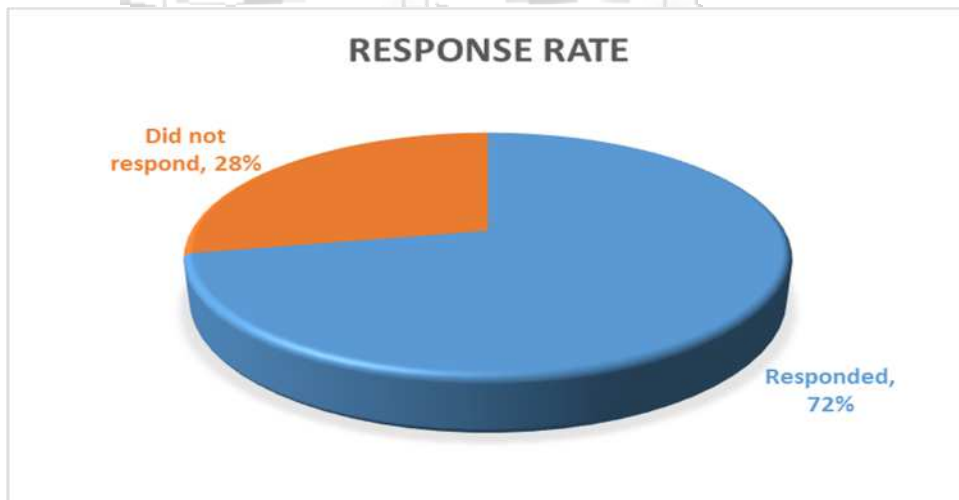
The fourth chapter of this research contains the findings of the research. The chapter will outline the response obtained in the data collection, the social demographics of the respondents, the study findings in line with the research objectives and finally the association between the study variables.

#### 4.2 Social Demographics

This section dwelt with a review of the demographics of the respondents based on their response rate, age, gender and their experience level as well as the size of their firms.

##### 4.2.1 Response Rate

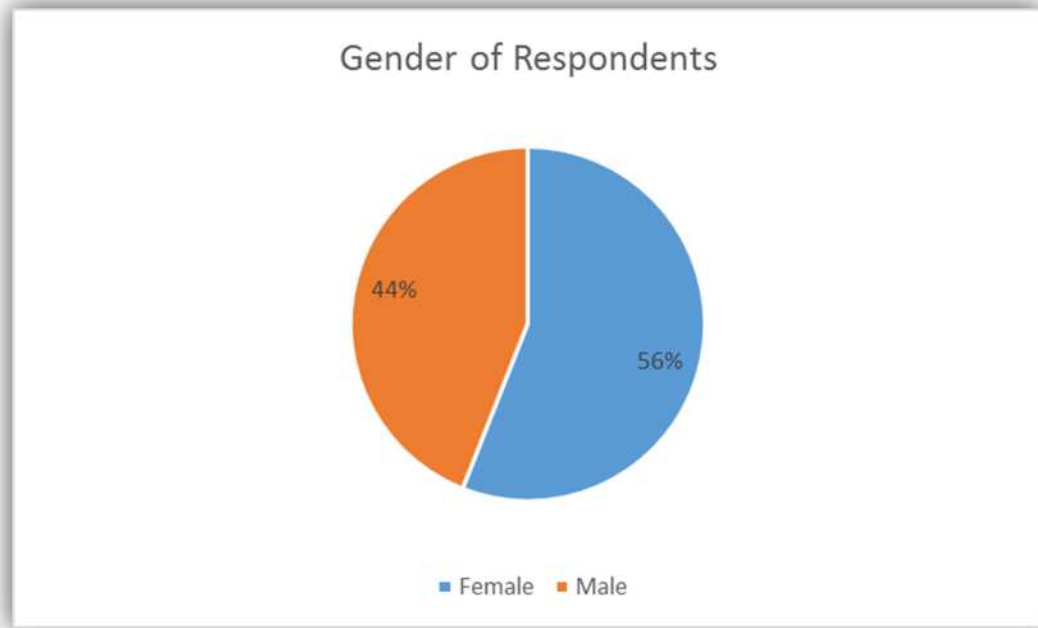
Findings from *Figure 4.1* below show that the research was able to record 72% (n=41) response rate. Those who did not respond to the research were 28% (n=16). This indicated a good response rate was obtained in the course of the research hence the findings of this research are representative of the entire population that was targeted in the study.



**Figure 4.1 Response Rate**

#### 4.2.2 Gender of Respondents

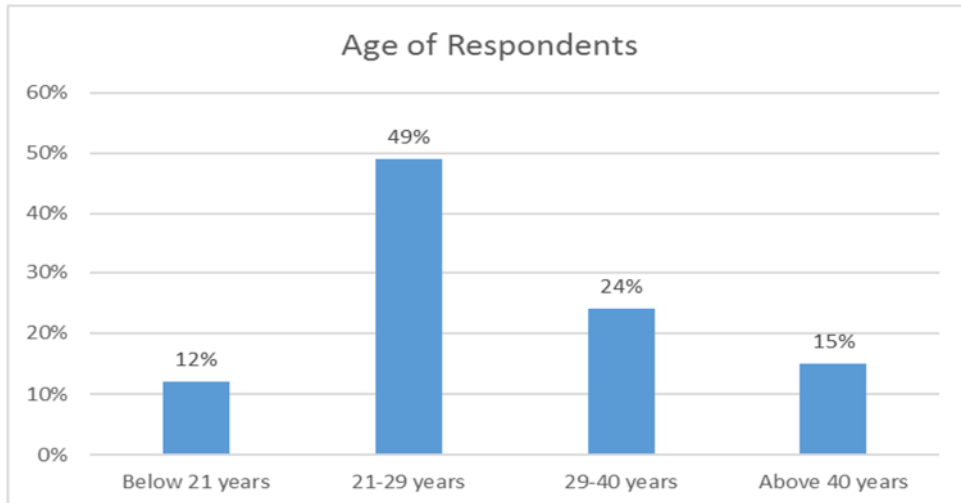
From the study findings, the majority of the respondents were female 56% (n=23) while male respondents were 44% (n=18) as shown in *Figure 4.2* below. The above findings obtained showed that there was fair balance in representation of both genders during the study and probably can be an indicator of fair balance in the personnel of the insurance industry.



**Figure 4.2 Gender of Respondents**

#### 4.2.3 Age of Respondents

From the study findings most of the respondents 21-29 years 49% (n=20), 24% (n=10) were between ages 29-40, 15% (n=6) of the respondents were above 40 years old while only 12% (n=5) of the respondents were below 21 years of age as shown in *Figure 4.3* below. The above findings illustrated that the majority of the respondents for the study were youths and it was a probable indicator that youthful personnel are the majority within the insurance industry.



**Figure 4.3 Age of Respondents**

#### 4.2.4 Work Experience

From findings presented in *Figure 4.4* most of the respondents, 37% (n=15) had more than 6 years of work experience, 37% (n=15) of the respondents had less than 3 years of experience while only 26% (n=11) had between 3-6 years of experience. The findings showed to some extent the majority of the respondents had at least 3 years of experience thus, indicating to some extent the insurance industry is able to retain its personnel.



**Figure 4.4 Work Descriptive**

### 4.3 Determinants of Insurance Penetration

**Table 4.1 Determinants of Insurance Penetration**

	Cases									
	Strongly Agree		Agree		Moderately Agree		Disagree		Strongly Disagree	
	N	%	N	%	N	%	N	%	N	%
The regulatory framework supports better insurance penetration.	8	20%	25	61%	7	17%	1	2%		
The regulatory framework creates a conducive environment to support penetration of insurance.	9	22%	16	39%	10	24%	5	12%	1	2%
Regulatory compliance offers incentives towards broadening the insurance penetration.	5	12%	10	24%	21	52%	4	10%	1	2%
There is a clear guideline within the law on ways of enhancing insurance penetration	4	10%	9	22%	15	37%	12	29%	1	2%
The public has information regarding the availability of insurance products and services.	0	0%	17	42%	5	12%	17	42%	2	4%
The public has knowledge of the benefits of insurance policies.	1	2%	6	15%	14	34%	17	42%	3	7%
Insurance firms do create much awareness to the public on the different insurance products.	2	4%	11	27%	16	39%	5	12%	7	17%
The public has trust towards the insurance industry.	5	12%	4	10%	7	17%	18	44%	7	17%
Insurance products are not complex to the public.	2	4%	2	4%	15	37%	17	42%	5	12%
The insurance products are not expensive for the public.	1	2%	12	29%	7	17%	18	44%	3	7%
Insurance products have a country-wide marketing strategy.	2	4%	5	12%	25	61%	6	15%	3	7%
Insurance firms have become innovative in distributing and marketing their products.	5	12%	20	49%	12	30%	2	4%	2	4%
The insurance market is not fully tapped.	23	56%	12	29%	3	7%	2	4%	1	2%
A conducive market exists for insurance products.	10	24%	19	46%	7	17%	1	2%		
The population has sufficient disposable income to enable more insurance uptake.	9	22%	17	42%	6	15%	6	15%	3	7%
Increase in community outreach programs would enhance insurance penetration.	14	34%	17	42%	8	20%	2	4%		
Introducing products and services meeting customer demands would enhance insurance penetration.	15	37%	21	51%	4	10%	1	2%		
There are larger benefits in acquiring insurance cover.	21	51%	13	32%	7	17%				

Source: Author (2016)

From the study findings in *Table 4.1* above the majority of the respondents, 61% (n=25) agreed that the regulatory framework supports better insurance penetration. From moderately in agreement on whether regulatory compliance offers incentives towards the study findings, the majority of the respondents 52% (n=21) were broadening the insurance penetration. With regard to there is a clear guideline within the laws on ways of enhancing insurance penetration the majority of the respondents 37% (n=15) were Agree on, 29% (n=12) of the respondents disagreed. From findings in *Table 4.1*, with regard to the public has information regarding the availability of insurance products and services the majority of the respondents 42% (n=17) of the respondents agreed. Concerning the public has knowledge of the benefits of insurance policies the majority of the respondents 42% (n=17) of the respondents disagreed, 34% (n=14) of the respondents were moderately in agreement.

With regard to insurance, firms do create much awareness to the public on the different insurance products 39% (n=16) of the respondents were moderately in agreement, 27% (n=11) of the respondents agreed. Concerning the public has trust towards the insurance industry 44% (n=18) of the respondents disagreed. With regard to insurance products not being complex to the public 42% (n=17) of the respondents disagreed. In regard to the insurance products are not expensive for the public 44% (n=18) of the respondents disagreed. With regard to insurance products having a country wide marketing strategy, the majority of the respondents 61% (n=25) of the respondents were moderately in agreement, 15% (n=6) of the respondents disagreed as shown in *Table 4.1* above.

With regard to insurance, firms have become more innovative in distributing and marketing their products the majority of the respondents 49% (n=20) agreed. With regard to insurance market not being fully tapped, the majority of the respondents 56% (n=23) strongly agreed. Results from *Table 4.1* above show that in regard to a conducive market exists for insurance products the majority of the respondents 46% (n=19) agreed. With to the population has sufficient disposable income to enable more insurance uptake the majority of the respondents 42% (n=17) agreed. Concerning increase in community outreach programs would enhance insurance

penetration the majority of the respondents 42% (n=17), 34% (n=14) of the respondents strongly agreed. With regard to the introducing products and services meeting customer demands would enhance insurance penetration the majority of the respondents 51% (n=21) of the respondents agreed, 37% (n=15) of the respondents strongly agreed.

With regard to there are larger benefits in acquiring insurance cover the majority of the respondents 51% (n=21) strongly agreed, 32% (n=13). Concerning the insurance firms have become innovative in distributing and marketing their products the majority of the respondents 49% (n=20) agreed, 30% (n=12) of the respondents were moderately in agreement as shown in *Table 4.1* above.

#### 4.3.1 Determinants Influence of Insurance Penetration

**Table 4.2 Extent of Determinants Influence**

	Cases					
	Extensively		Moderately		Minimal	
	N	%	N	%	N	%
Regulatory Framework	25	61%	11	27%	5	12%
Insurance Marketing	32	78%	8	20%	1	2%
Public Trust/Risk Attitude	30	74%	10	24%	1	2%
Price of Policy	17	42%	22	54%	2	4%

**Source: Author (2016)**

With regard to the extent of influence of the regulatory framework on insurance penetration, the majority of the respondents 61% (n=25) agreed on it extensively determined penetration. With regard to insurance marketing, the majority of the respondents 78% (n=32) agreed it extensively influence penetration, 20% (n=8) agreed it had moderate influence. With regard to public trust or risk attitude, the majority of the respondents 74% (n=30) agreed it had extensive influence on insurance penetration. With regard to price policy, the majority of the respondents 54% (n=22) of the respondents agreed it had a moderate influence on penetration. With regard to customer awareness, the majority of the respondents 66% (n=27)

agreed it had extensive influence. With regard to education level, the majority of the respondents 61% (n=25) agreed it had extensive influence. Concerning government intervention, the majority of the respondents 54% (n=22) agreed it had extensive influence. With regard to innovation, the majority of the respondents 66% (n=27) agreed it had extensive influence as shown in *Table 4.2* above.

#### 4.4 Challenges of Insurance Penetration

**Table 4.3 Challenges of Insurance Penetration**

	Cases						Disagree		Strongly Disagree	
	Strongly Agree		Agree		Moderate		N	%	N	%
	N	%	N	%	N	%				
There is no innovation within the insurance industry.	4	10%	15	37%	7	17%	7	17%	8	20%
Insurance firms do not differentiate their products.	7	17%	10	24%	8	20%	13	32%	3	7%
There is little market research on the needs of the clients.	6	14%	19	46%	11	27%	3	7%	2	5%
Insurance products are offered in a concentrated area without branching out of other areas.	7	17%	15	36%	11	27%	8	20%	0	0
The insurance products are highly priced.	7	17%	12	29%	12	29%	8	20%	2	5%
Clients do not feel the value for their money due to low-quality insurance products.	4	10%	21	51%	9	22%	4	10%	3	7%
The insurance industry does not have a standardized product price.	4	10%	19	46%	7	17%	8	20%	3	7%
No adoption of technology to enhance purchasing or payments of premiums	8	20%	9	22%	9	22%	12	29%	3	7%
There is no regulation on the pricing of insurance products.	6	14%	13	32%	6	14%	11	27%	5	12%
Insurance firms have poor customer service.	4	10%	17	42%	10	24%	7	17%	3	7%
Insurance firms have no feedback channels for clients to voice their concerns.	9	22%	17	42%	8	20%	6	14%	1	2%
Poor claim handling and repayments.	7	17%	14	34%	10	24%	10	24%		
Lack of technology adoption within the industry.	22	54%	17	42%	1	2%	1	2%		

**Source: Author (2016)**

With regard to there is no innovation within the insurance industry the majority of the respondents 37% (n=15) agreed it was a challenge. With regard to insurance firms do not differentiate their products most of the respondents 32% (n=13) disagreed. With regard to there is little market research on the needs of the clients most of the respondents 46% (n=19) agreed it was a challenge. With regard to insurance products are offered in a concentrated area without branching out of areas most of the respondents 36% (n=15) agreed as shown in *Table 4.3* above.

Results in *Table 4.3* above show that with regard to the insurance products being highly priced the majority of the respondents 29% (n=12) agreed. With regard to the clients does not feel the value for their money due to low-quality for insurance products most of the respondents 51% (n=21) agreed. With regard to the insurance industry does not have a standardized product price the majority of the respondents 46% (n=19) respondents agreed it was a challenge. With regard to no adoption of technology to enhance purchasing or payments of premiums, the majority of the respondents 29% (n=12) disagreed.

With regard to there is no regulation on the pricing of insurance products 32% (n=13) of the respondents agreed. With regard to insurance, firms have poor customer service the majority of the respondents 42% (n=17) agreed. With regard to insurance, firms have no feedback channels for clients to voice their concerns the majority of the respondents 42% (n=17) agreed. With regard to poor claim handling and repayments, the majority of the respondents 34% (n=14) agreed. With regard to the lack of technology, the majority of the respondents 54% (n=22) of the respondents strongly agreed as shown in *Table 4.3* above.

#### 4.4 Strategies to Enhance Insurance Penetration

**Table 4.4 Strategies to Enhance Penetration**

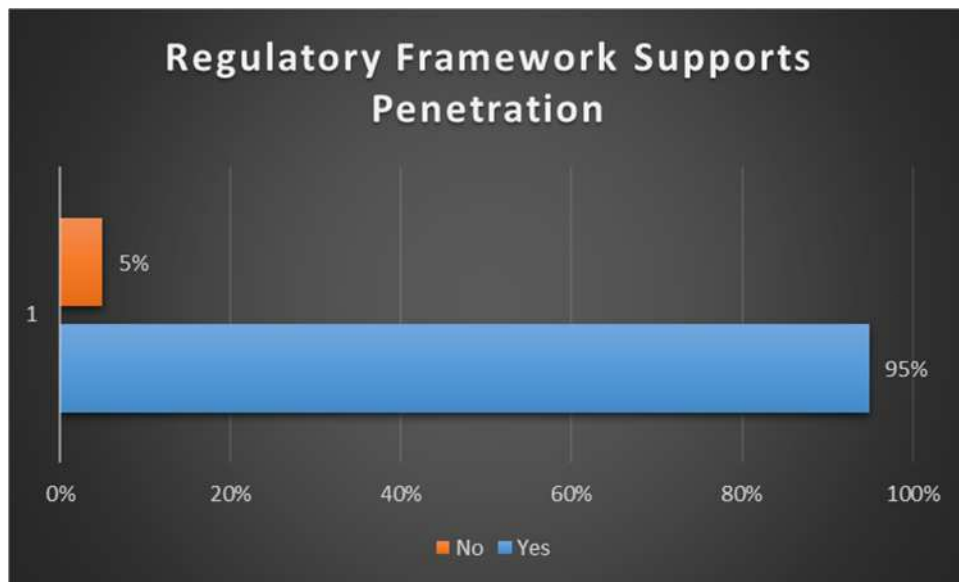
	Cases					
	Extensively		Moderately		Minimal	
	N	%	N	%	N	%
Strategic Alliance	21	51%	15	37%	5	12%
Product Innovation	16	39%	14	34%	11	27%
Customer Demand	12	29%	19	46%	10	24%
Government Involvement	32	78%	5	12%	4	10%
Pricing	36	88%	2	5%	3	7%

Source: Author (2016)

With regard to strategies to enhance the penetration of insurance products most of the respondents, 51% (n=21) agreed that strategic alliance extensively influenced penetration. With regard to product innovation, the majority of the respondents 39% (n=16) agreed it had extensive influence. With regard to customer demand, the majority of the respondents 46% (n=19) agreed it had moderate influence. With regard to government involvement, most of the respondents 78% (n=32) agreed it had extensive influence on insurance penetration. With regard to pricing the majority of the respondents 88% (n=36) agreed it had extensive influence as shown in *Table 4.4* above.

##### 4.4.1 Regulatory Framework Support Penetration

With regard to the regulatory framework supporting insurance penetration, the majority of the respondents 95.1% (n=39) agreed while only 5% (n=2) of the respondents disagreed as shown in *Figure 4.5* below.



**Figure 4.5 Regulatory Framework Supports Penetration**

#### 4.5 Regression Model

The table below illustrated the regression summary of the association between the study variables.

**Table 4.5 Regression Model Summary for Influence of Determinants, Challenges and Strategies on Insurance Penetration**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.534 <sup>a</sup>	.725	.620	.737

a. Predictors: (Constant), Determinants, Challenges, Strategies

**Source: Author (2016)**

The model shows that 72% of variations in the insurance penetration can be explained by the predictor variables; determinants, challenges and strategies of insurance penetration. This means that other variables not included in the study account for 28% variation on the insurance penetration as shown in *Table 4.5* above.

#### 4.6 ANOVA Model

**Table 4.6 ANOVA Model Summary**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	59.540	1	59.540	5.026	.021 <sup>a</sup>
Residual	347.710	6	11.843		
Total	407.249	7			

In testing the significance of the model, the value obtained was 0.021 which is less than 0.0025 at 5% level in a 2 tailed test. This indicates that the model was statistically significant in predicting the influence of (Determinants, Challenges, Strategies) on the insurance penetration levels. Findings also indicate the calculated F value is 5.026 which is greater than the F critical at 5% level of significance (3.23). Thus, this shows that the overall model was statistical significance as shown in *Table 4.6* above.

**Table 4.7 Regression Coefficients for Determinants, challenges and Strategies Influence on the Insurance Penetration**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.529	2.396		1.473	.019
Determinants	.636	.332	.705	1.913	.025
Strategies	.550	.354	-.528	1.552	.009

From the above *Table 4.7*, the regression coefficients help in answering the regression equation on the underlying relationship between the study variables. All the coefficients on the table were statistically significant since testing at 5% level with a 2-tailed test all the p-values were less than 0.025. The coefficients were the

determinants (0.636), the strategies (0.550) and the challenges (0.136). Thus, in general, the regression equation becomes;

$$Y (\text{Insurance Penetration}) = 3.529 + 0.636 + 0.550 + 0.136$$

This indicates that holding the insurance penetration factors constant the predictor variables would be 3.529. This shows that a unit change in the determinants would result in a 0.636 times increase in insurance penetration, a unit change in the strategies would enhance insurance penetration by 0.550 times and a unit change in challenges would result in a 0.136 increase in insurance penetration.

#### **4.7 Association Between Factors**

This section will represent how the study predictor variables affect the levels of insurance penetration. The level of insurance penetration was measured using two constructs; the uptake of insurance by people and an increase in the gross premium income ratio.

##### **4.7.1 Determinants and Insurance Penetration**

The determinants of the insurance penetration were grouped into; regulatory framework, pricing, customer awareness, technology, marketing then broken down into their constructs. Each of the constructs was measured according to how it's practiced and its influence on insurance penetration.

**Table 4.8 Determinants Descriptive Statistics**

	N	Mean	Std. Deviation
Insurance products are not complex to the public.	41	3.4634	1.02707
The public has trust towards the insurance industry.	41	3.3902	1.30150
The public has knowledge of the benefits of insurance policies.	41	3.3171	.98588
The insurance products are not expensive for the public.	41	3.1463	1.06210
Insurance firms do create much awareness to the public on the different insurance products.	41	3.0732	1.17026
The public has information regarding the availability of insurance products and services.	41	3.0244	1.06037
Insurance products have a country-wide marketing strategy.	41	2.9756	.87999
There is a clear guideline within the law on ways of enhancing insurance penetration	41	2.8780	1.05345
Regulatory compliance offers incentives towards broadening the insurance penetration.	41	2.6098	.94546
The population has sufficient disposable income to enable more insurance uptake.	41	2.4146	1.22425
Insurance firms have become innovative in distributing and marketing their products.	41	2.3659	.91532
The regulatory framework creates a conducive environment to support penetration of insurance.	41	2.3415	1.03947
A conducive market exists for insurance products.	41	2.1951	1.00547
The regulatory framework supports better insurance penetration.	41	1.9756	.68876
Increase in community outreach programs would enhance insurance penetration.	41	1.9512	.99878
Introducing products and services meeting customer demands would enhance insurance penetration.	41	1.7805	.82195
The insurance market is not fully tapped.	41	1.6829	.98588
There are larger benefits in acquiring insurance cover.	41	1.6098	.73750

The research findings further showed that the insurance products are not complex to the public as indicated by the mean 3.4634 and standard deviation of .95189 as shown in *Table 4.8* above. Findings showed that the public has trust towards the insurance industry as shown by the mean 3.3902 and standard deviation of 1.24597. Findings also indicate that the public have knowledge of the benefits of insurance policies as shown by the mean 3.3171 and mean .91532. Also according to the responses the insurance products are not expensive as indicated by the obtained mean of 3.1463 and standard deviation of 1.04356. Findings also indicate the insurance firms do create much awareness to the public on the different insurance products as shown by the mean 3.0732 and mean 1.13589. According to the findings, the respondents agreed the public have information regarding the availability of insurance products and services as shown by the mean 3.0244 and standard deviation of 1.01992 which falls under the interval of moderate agreement 3.1-4.0

Responses obtained also showed a moderately agreement with view with regard to insurance products having a countrywide marketing as indicated by the mean 2.9756 and standard deviation of .87722. The findings further show the respondents were in agreement that there is a clear guideline on the law on ways of broadening the insurance penetration as shown by the mean 2.8780 and standard deviation of 1.00971 as shown in *Table 4.8* above. Findings of the study also show the respondents agreed that regulatory compliance offers incentives towards broadening penetration as shown by the mean of 2.6098 and standard deviation of .91131. Also, findings showed that the population has sufficient disposable income to enable more insurance uptake as indicated by the mean value of 2.4146 and standard deviation of 1.20517 indicating agreement among respondents as shown in *Table 4.8* above.

Findings also showed the respondents agreed on the insurance firms becoming innovative in distributing and marketing their products as shown by the mean of 2.3659 and standard deviation of .94804. According to the findings, the responses also showed that the regulatory framework creates a conducive

environment for better penetration as shown by the mean 2.3415 and standard deviation of 1.03947. Findings from the table also revealed that a conducive market exists for insurance products as shown by the agreement in responses as indicated by the mean 2.1951 and standard deviation of 1.00547. From the study findings, the most of the respondents agreed that the regulatory framework supported insurance penetration as shown by the mean 1.9756 which falls under the interval for agreeing and standard deviation of .68876 showing a moderate variation in the responses. Findings in *Table 4.8* also showed that increase in community outreach programs would increase insurance penetration as shown by the mean 2 and a standard deviation of 1.

The findings also showed a strong agreement among respondents that introducing products and services meeting customer demands would enhance insurance penetration as shown by the mean 1.7805 and standard deviation .81300. Findings also showed a strong agreement among responses obtained with regard to the insurance market not being fully tapped as shown by the mean 1.6829 and standard deviation of .98588. Findings also showed that there are larger benefits in acquiring insurance cover as indicated by the mean 1.6098 and standard deviation .76190 indicating a strong agreement among respondents as shown in *Table 4.8* above.

From the above findings it was evident that the majority of the respondents were in agreement that the main factors that have been determining insurance penetration was the perceived trust by the public towards the insurance industry, the insurance products not being expensive for the public and the products/services not being complex as indicated by the high mean scores which indicated a strong agreement.

## 4.7.2 Strategies and Insurance Penetration

**Table 4.9 Strategies Descriptive Statistics**

	N	Mean	Std. Deviation
Price of Policy	41	1.6098	.58643
Government Participation	41	1.5854	.70624
Education Level	41	1.5366	.74490
Innovation	41	1.4878	.84030
Regulatory Framework	41	1.4634	.67445
Customer Awareness	41	1.4146	.63149
Public Trust/Risk Attitude	41	1.2439	.43477
Insurance Marketing	41	1.1951	.40122

On the influence of price of the policy, the study findings show that it has a large extent of influence as shown by the mean 1.6098 and a standard deviation of less than (.5643). Findings from the table also indicate that to a large extent the government participation enhances insurance penetration as shown by the mean 1.5854 and standard deviation of .70624. The study findings further show that the education level to a large extent influences insurance penetration as shown by the mean 1.5366 and the standard deviation of .74490. The findings show that innovation to a strong extent influences insurance penetration as shown by the mean value of 1.4878 and standard deviation of .84030.

From the findings presented in *Table 4.9* according to the responses given the regulatory framework supports insurance penetration as indicated by the mean of 1.4634 which falls within the interval of 1.1-2.0 for a strong extent of influence. The standard deviation was .67445 showing a bit large variation of responses from the individual mean. Findings in *Table 4.9* above further show that customer awareness enhances insurance penetration as shown by the large extent of influence indicated by the mean 1.4146 and standard deviation of .63149. Findings also indicated a strong extent of influence of public trust on insurance penetration as indicated by the mean 1.2439 and an average variation as represented by the standard deviation of .43477. Further the findings showed that insurance marketing had a strong extent of

influence of penetration as shown by the mean value of 1.1951 and a smaller variation of responses as indicated by the mean .40122.

The above findings showed that in the view of the respondents the main strategies that would have had the highest influence on insurance penetration were the support of the regulatory framework, the price of the policy, government intervention, education and level of innovation as indicated by the stronger mean scores.



### 4.7.3 Challenges and Insurance Penetration

**Table 4.10 Association Between Challenges Descriptive Statistics**

	N	Mean	Std. Deviation
Insurance firms do not differentiate their products.	41	3.1463	1.25620
There is no innovation within the insurance industry.	41	3.0000	1.32288
There is no regulation on the pricing of insurance products.	41	2.9024	1.30009
No adoption of technology to enhance purchasing or payments of premiums	41	2.8293	1.26298
Insurance firms have poor customer service.	41	2.7073	1.10100
The insurance industry does not have a standardized product price.	41	2.6829	1.12781
The insurance products are highly priced.	41	2.6585	1.13159
Poor claim handling and repayments.	41	2.5610	1.04997
Clients do not feel the value for their money due to low-quality insurance products.	41	2.5366	1.05113
Insurance products are offered in a concentrated area without branching out of other areas.	41	2.4878	1.00304
There is little market research on the needs of the clients.	41	2.4146	.99939
Insurance firms have no feedback channels for clients to voice their concerns.	41	2.3415	1.06324
Lack of technology adoption within the industry.	41	1.5366	.67445

Findings presented in *Table 4.10* indicated that insurance firms do not differentiate their products as shown by the mean value of 3.1463 and standard deviation of 1.25620. Findings also above show that according to the responses were

given, the respondents had a moderate agreement with regard there is no innovation in the insurance industry as indicated by a mean of 3 and standard deviation of 1.32288. Also, findings showed that there is no regulation on the pricing of insurance products as shown by the mean 2.9024 and standard deviation of 1.3009. This indicated a wide variation in the responses obtained. With a mean of 2.8293 and standard deviation of 1.26298, respondents were in agreement no adoption of technology to enhance purchasing and payments of premiums was a challenge to insurance penetration. Findings further point out that insurance firms have poor customer service as indicated by the mean of 2.7073 and standard deviation of 1.10100 indicating agreement among respondents.

Findings on *Table 4.10* also show that the insurance industry does not have a standardized product price as indicated by the mean 2.6829 and standard deviation of 1.12781 indicating agreement among the respondents. Also, the respondents were in agreement that the insurance products are highly priced as indicated by the mean value of 2.6585 and standard deviation of 1.13159. Also, the findings showed that respondents were in agreement there are poor claim handling and repayments which hamper insurance penetration as shown by the mean value of 2.5610 and standard deviation of 1.04997. Further, with a mean of 2.5366 and standard deviation of 1.05113 findings show that respondents were in agreement that clients do not feel value for their money due to low-quality insurance products as shown in *Table 4.10* above.

Further, the respondents were in agreement that insurance products are offered in a concentrated area without branching out to other areas thus impeding penetration as indicated by the mean 2.4878 and standard deviation of 1.00304. The findings also indicated that respondents agreed there was little market research on the needs of the clients which posed a challenge to insurance penetration as indicated by the mean 2.4146 and standard deviation of .99939. This falls in the interval 2.1-3.0 which indicates agreement. With a mean of 2.3415 and standard deviation of 1.06324 respondents were in agreement insurance firms have no feedback channels for clients to voice their concerns. Findings also showed a strong agreement among

respondents that lack of technology adoption within the insurance industry has dampened insurance penetration as indicated by the mean value of 1.5366 and standard deviation of .67445 indicating the marginal variation of individual responses.

In general, the above findings showed that the majority of the respondents were of the view that the main impediments to insurance penetration was the lack of innovation within the insurance industry and the apparent lack of differentiation of insurance products and services.



## CHAPTER FIVE

### PROPOSED FRAMEWORK

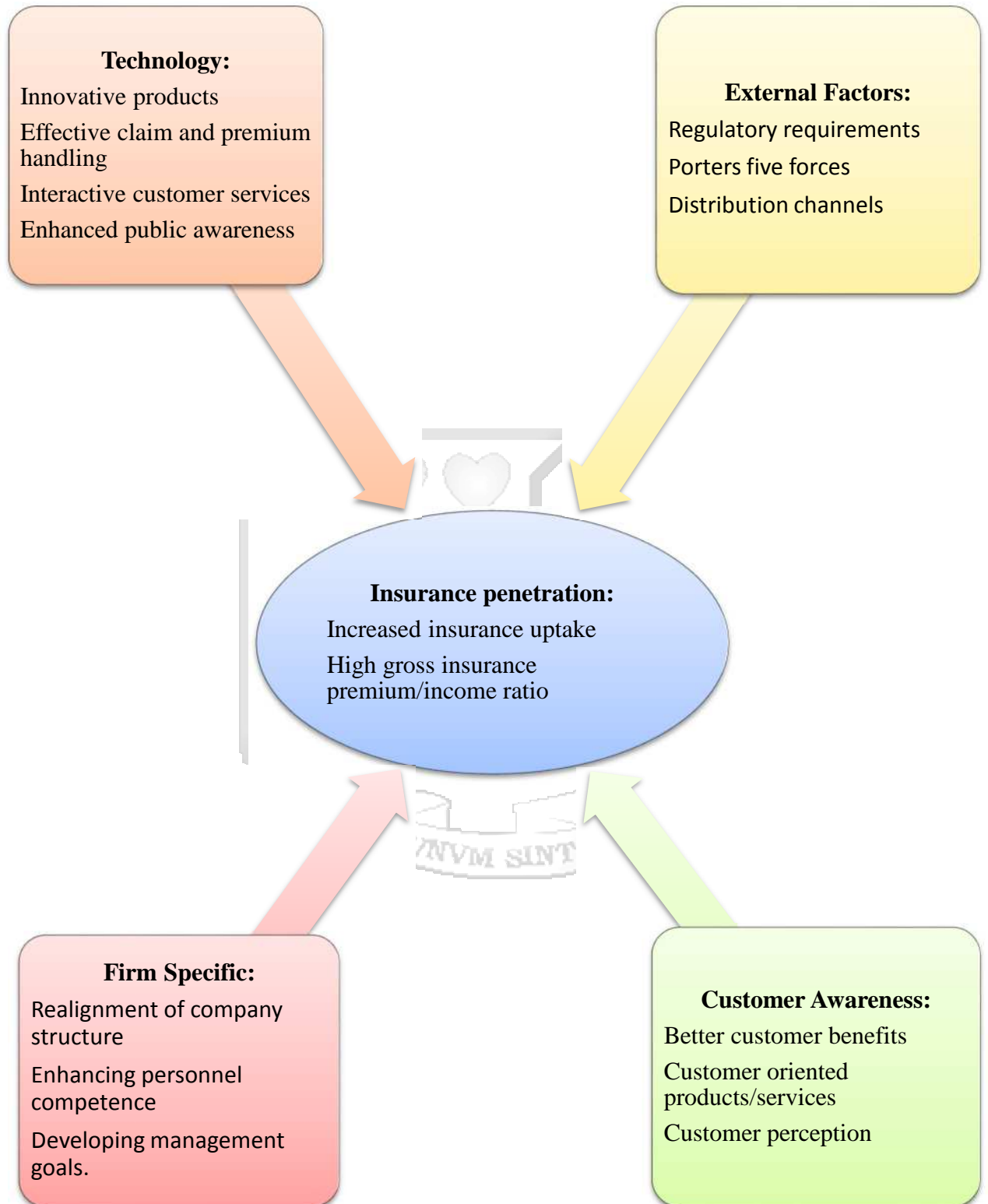
#### 5.1 Insurance Industry

With the rapid expansion in the domestic economic outlook there are high expectations that the demand for both life and non-life insurance will be on the rise as result of more population joining the middle-class income earners. Overall the Kenyan insurance sector has doubled its growth in the period 2010-2014 which saw the sector size rise from a partly 77.9B shs. To 157.7B shs. However, market analysts have voiced their concern on the poor uptake of insurance by low-income earners and rural dwellers. This has been largely attributed to lack of awareness on the products and services, claim payments and poor distribution channels (AKI, 2014). In line with the recommendations of IRA (2013) there is need for insurance firms to come up with dynamic structures that will propel the uptake of insurance within the market. Hence, this research undertook a preposition that was geared towards contributing to the policy changes in the insurance industry that will culminate in better insurance penetration.

#### 5.2 Proposed Framework

The proposed insurance penetration framework was presented in a flow chart showing how the specific components within insurance institutions can be harnessed to enhance insurance penetration. The selected components were chosen due to their central influence in enhancing insurance penetration.

The below framework was driven by the gaps identified in subsequent industry reports such as the IRA (2014, 2015), AKI (2013, 2014) and the Cytonn Investment (2015) group industry analysis which all highlighted common aspects that are curtailing the insurance uptake in the country.



**Figure 5.1 Proposed Framework**  
*Source: Author (2016)*

The above integration is founded on the need to enhance the penetration of insurance in the Kenyan insurance industry. The framework was determined by the cost of adoption which is specific to the organization in reference to the target area, the market size, and the level of competition. Further, the framework was determined by the need to foster customer benefits, the objectives of the firm and the potential financial benefit the firm is expecting to gain from the roll out of the product.

In adopting the framework, the firm needed to do a deep internal and external analysis on;

**Customers Awareness:** Customers are the integral factor in enhancing the potential of business. A firm cannot roll out the product or services without taking into consideration the customer aspects. The firm needs to establish there is a ready market for its product/service, as well as the capacity of that market, to sustain profitable demand.

**External Factors:** Core to the adoption of a framework and rollout of subsequent products is the conformity of the firm to market regulations as well as the statutory requirements. It is paramount that an institution conforms to all the laws that govern the market environment in order to create a conducive service offering. Market share this is on the same line with the ability of the firm to capture a particular market niche. The firm needs to ensure that it has a ready market share that will be large enough to accommodate the service offering.

**Firm Specific Factors:** Critical to any business growth, is the internal coordination of the business unit with the aim of providing a competitive service offering. Thus, it is essential that the firm has a strong human resource capacity that can support the rollout of the service and subsequent customer relations. In the insurance industry, human resource is key to the penetration of the services as the firm will require a strong personnel force that will ensure the distribution, marketing/sales, and customer relations are adequately met. Management goals and the company structure – Key to any business undertaking is the management support of the initiative. It's integral that any adoption of the framework towards a service

rollout is supported by a committed management team. Coordination of the management goals and the framework adoption is key to the realization of the penetration objective. Management committee allows for the assembling of adequate personnel, availing the necessary capital allocation as well as offering an ambient environment to support the adoption.

One of the biggest limitation of the insurance penetration is a lack of diversification in the product offering. In other words, the insurance industry is highly constrained by the lack of differentiated and innovative products. An essential factor in gaining a competitive edge in the market is the integration of technology within the service offering. This in accordance with the framework should be integrated into two ways;

**Technology:** This can take the form of developing innovative services in line with the main insurance products that are in great demand. For instance, the latest trend in offering insurance cover for high-end technology gadgets has gained some market demand. However, the firms need to be competitive in the market. Thus, they should allocate more capital to their research and development team that will ensure that the firm can offer services that the market is in dire need of acquiring. For instance, firms can rollout insurance products for cloud services; this is a new trend in the local market where firms are hosting their data and customer information online rather than the physical-based host centers. Further, there are more innovations that the industry can leverage on in the agricultural sector and the Jua kali Industry. The key to the success of any undertaking is the ability of the firm to engage the clients in a convenient and highly satisfying way. The firms can enhance this through integrating technology in the claim lodging and payment process, customer service, payment of premiums as well as applying for insurance covers. This will allow the customer to enjoy flexibility and efficiency in the market. High customer satisfaction is key to retention of the market share and stickiness of the customers.

### 5.3 Framework Validation Results

**Table 5.1 Validation Results**

Measurement metric	Mean (Score)	Std. Deviation
Firm has in place policies to support better insurance penetration.	3.930	.97851
There are key objectives in the framework to support insurance penetration.	3.900	1.00914
Organization structure supports insurance penetration.	4.127	.82327
Sufficient finances are available to support insurance penetration.	4.100	.81914
Sufficient human resource personnel capabilities are available to support insurance penetration.	3.819	1.03280
Management goals are supportive of insurance penetration.	4.888	.90409
Adequate infrastructure within the firm to support insurance penetration.	3.802	.92796
Innovative products that will foster insurance penetration.	3.500	.97851
Sufficient technology for effective claim and premium is handling.	4.120	.91200
Personnel trained on better customer support.	4.600	.99443
Insurance products are aligned to customer wants.	3.700	1.0593
The firm recognizes capabilities of the personnel.	3.730	1.41421
Firm creates a conducive environment.	3.900	1.19230
Firm environment creates a competitive edge.	4.100	.99443
Regulatory framework support insurance penetration.	3.810	1.37032

**Table 5.2 Cont'd**

External environment supports insurance penetration.	3.900	1.34990
Threats to insurance penetration from new entrants.	4.100	.99443
Bargaining power of suppliers influences insurance penetration.	4.761	.97379
Bargaining power of buyer's influence insurance penetration.	4.111	.85297
Threats from substitute products influences insurance penetration.	4.032	.930562
Customers aware of benefits of insurance	3.768	.94704
Insurance products meet customer needs.	4.521	.91193
Insurance products are quite innovative to meet clients and market needs.	3.672	.90734
Shortcomings in current strategy for insurance penetration.	4.027	1.00834
Current strategy resulting in poor insurance penetration.	3.997	1.13890
Current framework too rigid to support enhanced insurance penetration.	3.788	1.12100
Current framework fails to maintain a competitive edge.	3.880	.90239
Current framework is adequate for insurance penetration.	3.768	.94704
Current framework realigned to organization objectives.	3.880	.90239
Current framework supported by personnel.	3.974	.67310
Current framework able to support better penetration.	3.895	1.31922
Current framework supports routine evaluation.	3.800	.81191

**Table 5.2 Cont'd**

Sufficient infrastructure to support the framework rollout.	3.888	1.21901
Data on insurance penetration readily available.	3.117	1.11377
Personnel adequately trained on the framework application.	4.600	.99443
Framework realigned to the entire firm structure/departments	4.120	.91200
Regulatory laws supportive of the framework.	3.168	.94704
Framework selection has been conducted thoroughly.	4.131	.85197
The forum allows for capturing of feedback.	4.289	.90227
Insurance penetration better with the framework.	4.780	.90465
The system has been developed to support framework and insurance penetration.	3.888	1.21901
Sufficient monitoring and evaluation plans.	3.994	.76310

Findings in table 5.1 above show the results of the framework validation that was conducted within four firms to measure its efficacy in promoting better insurance penetration. The mean column in the table represents the ranking points for each of the metric on the validation tool while the standard deviation represents the extent to which the rankings varied with firms thus detailing the uniformity of results within firms.

A mean ranking of less than 1 represents the lowest ranking while any mean value between 4-5 represents the highest ranking. A low ranking shows that the process activity does not have the support of the majority of the firm whereas a high ranking shows that the activity was uniformly adopted and supported by the firm. Thus; it's a key component of the proposed framework. A standard deviation of above 1 shows that the firms had a significant variation in their results and could be replicated even if the framework was tested in the entire insurance industry. A value

below 1 shows that the variability within the firm was due to chance, and the results can reliably be used to explain the different scenarios in the process activities.

In the above framework, the average score was set to 2.8 which was considered close to the medium score (2.5) which a metric required to be considered fair in the adoption of the framework. From the above table, all the mean values were above the medium and the average score. Thus, all the firms which adopted the framework have the ability to utilize the framework as means of enhancing insurance penetration. Further, challenges in the penetration of the insurance can be mitigated since all the firms showed willingness in sharing information.

From the above analysis it was evident that the respondents were highly in agreement that management goals that are supportive of insurance penetration, adequately trained personnel, products that meet customer demand and personnel well trained on customer support are some of the aspects of the proposed framework that have the will yield the best insurance penetration levels.

#### 5.4 Summary Results for Framework Validation

**Table 5.2 Summary Results**

Respondent Code	Score					Total Score
	1	2	3	4	5	
No. 1	2	4	4	8	18	144
No. 2	2	1	3	23	7	140
No. 3	2	1	1	24	8	144
No. 4	1	2	7	4	22	152
No. 5	2	1	0	27	6	142
<b>Maximum Score</b>	<b>2</b>	<b>4</b>	<b>7</b>	<b>27</b>	<b>22</b>	<b>152</b>
<b>Minimum Score</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>6</b>	<b>140</b>

The maximum score a respondent can attain is a score of 220 – that is a maximum score of 5 in each metric thus implying that each component in the proposed framework is strictly geared towards enhanced insurance penetration. The minimum score, on the other hand, is 44 – implying a minimum score of 1 on each of the

metrics indicating the components is not in line to support better insurance penetration. This gives a range value (Max-Min) of 176 with an interquartile range of 88. This means that any respondent with a score above 88 is well placed in enhancing insurance penetration based on the framework proposed.

From the above table, the best-ranked respondent had a score of 152 with the minimum score being 140. This leads to the logical conclusion that the proposed framework in this research can be utilized in enhancing insurance penetration. This is due to the fact that all the sampled and tested firms had a score above the minimum cut-off. As such these firms can adequately adopt the framework and support better insurance penetration.



## CHAPTER SIX

### DISCUSSIONS

#### 6.1 Discussion

In regard to the social demographics the study recorded a response rate of 72% (n=41). The majority of the respondents were female 56% (n=23), with most respondents 49% (n=20) being between ages 21-29 years. The majority of the respondents 37% (n=15) had more than 6 years of experience.

#### 6.2 Determinants of Insurance Penetration

Concerning the determinants of insurance penetration, the majority of the respondents agreed that the regulatory framework supported better insurance penetration. Majority of the respondents were moderately agreement with regard to whether regulatory compliance offers incentives towards broadening the insurance penetration. Further the majority of the respondents were moderately agreement on that there was a clear guideline within the laws on ways of enhancing insurance penetration. With regard to the public has information regarding the availability of insurance products and services the majority of the respondents agreed. The above findings are supported by Kiragu (2014) who points out that the low insurance penetration within the country is due to lack of support by the government through better legislation/laws streamlining the insurance industry. The author further points out that there is minimal product diversification and nationwide marketing of insurance products.

In regard to the public has knowledge of the benefits of insurance policies the majority of the respondents disagreed. With regard to insurance firms do create much awareness to the public on the different insurance products, the majority of the respondents were moderately in agreement. The majority of the respondents also disagreed that the public has trust towards the insurance industry. Concerning insurance products not being complex to the public the majority of the respondents disagreed. Muriira, (2014) supports the above findings by arguing that one of the strategies that insurance firms have adopted better customer awareness as one of the main policies of enhancing competitiveness and insurance uptake. The author also

points out to better complaints handling as a policy undertaken to mend the confidence of the public towards insurance products.

With regard to insurance products are not expensive for the public the majority of the respondents disagreed. This finding is supported by Kiragu (2014) who argues that insurance products are structured in line with the different income levels and consumer demand. Further the majority of the respondents were moderately in agreement on in regard to insurance products having a country wide marketing strategy. The majority of the respondents agreed that insurance firms have become more innovative in distributing and marketing their products. Further the majority of the respondents strongly agreed that the insurance market is not being fully tapped. With regard to a conducive market exists for insurance products the majority of the respondents agreed.

Regarding the population, has sufficient disposable income to enable more insurance uptake the majority of the respondents agreed. Further, the majority of the respondents agreed that increase in community outreach programs would enhance insurance penetration. Concerning the introduction of products and services meeting customer demands would enhance insurance penetration the majority of the respondents agreed. The above is in line with the findings of Gitau (2013) who shows that insurance firms have in the past been engaged in nationwide campaigns geared towards promoting their products and services. The author further points to the growing middle income class in the country as proof that there is a wider market for insurance products that needs to be serviced.

Further with regard to larger benefits in acquiring insurance cover the majority of the respondents strongly agreed. The majority of the respondents further agreed that insurance firms have become more innovative in distributing and marketing their products. The majority of the respondents were in agreement that the regulatory framework extensively influences insurance penetration. This is supported by Thompson, Strickland and Gamble (2005) who are of the view that government regulatory actions and practices can often be used as a tool of forcing significant changes in the industry practices. Hence they are of the conclusion that the

government regulatory actions can be a tool in expanding the market outreach of a specific industry. Concerning insurance marketing, the majority of the respondents were in agreement it extensively influences insurance penetration. In regard to the public trust or risk attitude affects the insurance penetration the majority of the respondents agreed. In regard to the price policy influencing insurance penetration, the majority of the respondents agree it had moderate influence. This is in line with the argument by Hawkins and Mothersbaugh, (2010) who argued that marketing and pricing of product largely influences the consumer demand and acquisition of the same product or service. They further show that in the consumer decision making process the marketing of the product and its pricing play a critical role in their purchasing decisions. The majority of the respondents agreed that customer awareness had extensive influence on insurance penetration.

Concerning the education level, the majority of the respondents agreed it had extensive influence. Further the majority of the respondents agreed government intervention had extensive influence on insurance penetration. In regard to innovation, the majority of the respondents agreed it had extensive influence on insurance penetration. These findings are in agreement with Schultz (2006) who argues that technology plays a key driving force in the success of marketing initiatives as well as innovation within the insurance industry. Hacket (2009) further supports this by arguing that creating customer awareness through better usage of technology creates a performance enhancing advantage that innovation would not have sustained alone. A McKinsey Global survey, (2009) supports this ideology by pointing out that technology advancements that are supported by better legislation and better customer awareness is a strong contributor to a firm's success. The survey further highlights that technology at the hands of marketers generates large market information that is key to enhancing insurance penetration. (Hawkins & Mothersbaugh, 2010)

### **6.3 Challenges to Insurance Penetration**

Concerning lack of innovation within the insurance industry within the insurance industry the majority of the respondents agreed it was a challenge. The majority of the respondents disagreed with regard to insurance firms do not differentiate their

products. However, Olayungbo and Akinlo, (2016) posits that lack of proper product modification within the insurance industry limits the consumer preferences hence has been deterring the insurance penetration within the country. Majority of the respondents agreed that there is little market research on the needs of the clients.

In regard to insurance products are offered in a concentrated area without branching out of areas most of the respondents agreed. This is supported by Thompson, Strickland III, and Gamble (2005) who is of the general view that lack of diverse ways of marketing products lowers the spark that contributes to consumer interest on the product. He attributes the limitations in marketing of a firm products to the lack of information on the market trends within the industry. In regard to the insurance products being highly priced the majority of the respondents agreed. With regard to the clients do not feel the value for their money due to low-quality for insurance products the majority of the respondents agreed. Further, the majority of the respondents agreed that the insurance industry does not have a standardized product price.

In regard to there no adoption of technology to enhance payments of claims and premiums the majority of the respondents disagreed. Concerning lack of regulation on the pricing of insurance products the majority of the respondents agreed. The majority of the respondents also agreed that poor customer service was a challenge to insurance penetration. In regard to insurance firms have no feedback channels for clients to voice their concerns the majority of the respondents agreed. The majority of the respondents also agreed that there was poor claim handling and repayments. In regard to lack of technology the majority of the respondents strongly agreed it was a major challenge to insurance penetration. Thakur, (2013) supports the above study by arguing that the payment systems adopted by insurance industry play a critical role in enhancing the penetartion of insurance. Slow payment of claims negatively affects the ability of insurance firms to promote their products. The author further outlines that limitations in engaging customers creates a gap between the service provider and the consumer which dampens the uptake of the firms products and services. Robert (2013) further, argues that lack of an elaborate

feedback channel limits the sourcing of information from customers which could have been used by the firm in developing new strategies for insurance penetration.

#### **6.4 Strategies to Enhance Penetration**

In regard to strategic alliance the majority of the respondents agreed it would extensively enhance insurance penetration. The majority of the respondents also agreed that product innovation would extensively influence the insurance penetration. This is supported by Gitau, (2013) who stresses that technology will be the main driver of competition within any given industry hence integrating technology into firm operations will better the overall results. With regard to customer demand the majority of the respondents agreed it had moderate influence on insurance penetration. Further most of the respondents agreed that government involvement had extensive influence on insurance penetration while the majority of the respondents also agreed the product pricing had extensive influence on the insurance penetration. This supported by Muriira, (2014) who augurs that better strategic alliances and meeting customer demand during product development will enhance insurance penetration.

#### **6.5 Association Between Variables**

A regression model to test the influence of the different variables of the study on insurance penetration showed that 72% of the variations in insurance penetration could be explained by the research parameters (determinants, challenges and strategies). The regression model was statistically significant. The findings further showed that all the variables had a positive influence on the insurance penetration.

From the framework validation its evident that the threat of new entrants poses a challenge to the penetration of insurance products. This is in line with the findings of Kelly (2010) who also argued that the possibility of new firms entering the industry affects the competition landscape. However, he further avers that large firms can be able to protect their expansion strategies by inhibiting the progress of new entrants.

In regard to insurance penetration being low due to other market forces, findings from the study show that there is threat from other forms of financial products. More

so the lack of proper government support and regulatory framework inhibits the penetration of insurance. This is in line with the assertions of Powers (2010) who argued that lack of supporting facilities hinders product modification and market expansion activities.



## CHAPTER SEVEN

### CONCLUSIONS AND RECOMMENDATIONS

#### 7.1 Conclusions

The study concludes that the low insurance penetration and uptake in Kenya has been caused by various factors which include lack of knowledge and awareness by consumers, inaccessibility of Insurance as the distribution channels are wanting, and the marketing of the insurance products is limited to urban areas. Further, the insurance products are not highly differentiated as well as they do not meet the needs of the consumer amongst others.

The role of the government and the insurance regulator in enabling penetration is critical particularly in ensuring the right legal framework to allow for more distribution channels, standardization of the pricing and better marketing. There is a need for the regulator to play a more central role in ensuring consumer protection so that the negative perception held by the public about non-payment of claims by Insurance companies is corrected. The Insurance companies need to adopt strategies such as alliances, better innovation, fair pricing as ways of promoting better insurance penetration.

Further, the author acknowledges that lack of innovation and uptake of technology has been a key challenge to enhancing insurance penetration. The author concludes that in general the lack of better product differentiation has limited the penetration of insurance. More so, the author points out that lack of clear marketing strategies dampens the insurance firm's product penetration strategies.

#### 7.2 Recommendations

Based on the study findings and conclusions made the researcher recommends that; to enhance insurance penetration, there is a need for insurance firms to collaborate together and with the government in designing new legal frameworks that will support better insurance penetration. The researcher further recommends that insurance firms should adopt newer technology that will enhance better service delivery, a collection of information from consumers and support better product differentiation. Insurance companies need to be more creative and come up with

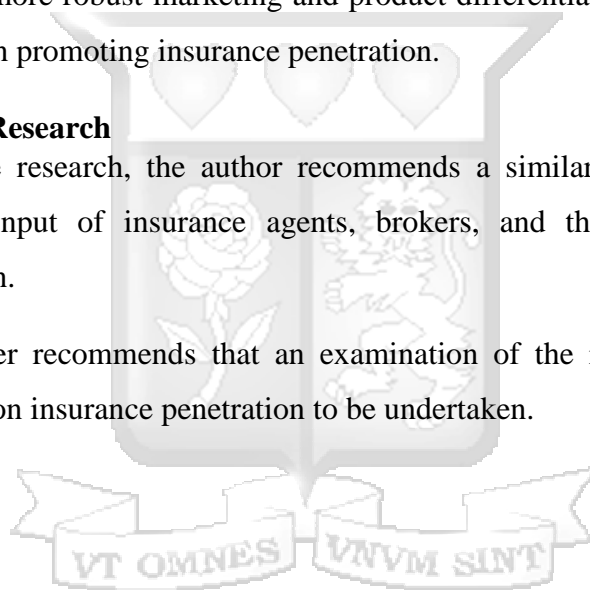
innovative products that will address the needs of the consumers. Public education needs to be carried out on the benefits of insurance and risk management.

Further, the study recommends that insurance firms should ensure robust marketing strategies are put in place to support a nationwide marketing and distribution of insurance products. More so, insurance firms should leverage on better marketing as tools for enhancing insurance penetration through creating awareness among consumers on ways of fostering insurance penetration. The research also recommends strategic alliances among insurance firms as an alternative method of promoting insurance penetration. The merging of firms will allow for a more robust marketing and product differentiation practices that will go a long way in promoting insurance penetration.

### **7.3 Future Research**

For future research, the author recommends a similar study being undertaken where the input of insurance agents, brokers, and the public are taken into consideration.

The further recommends that an examination of the role played by corporate governance on insurance penetration to be undertaken.



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## APPENDICES

### Appendix I: Introduction Letter

Strathmore University  
P.O Box 59857 -00200  
Nairobi

January 2016

#### RE: PERMISSION TO COLLECT DATA FOR ACADEMIC RESEARCH

Dear Sir /Madam,

I am a Master's of Business Administration (MBA) At Strathmore University. As a requirement of this degree, I am supposed to carry out a research study intended to solve a problem within my area of specialization. I intend to conduct research geared towards developing a framework for adoption by the insurance industry to enhance insurance penetration in Kenya.

The data collected will be solely be used for academic purposes. I, therefore, request your help in filling the attached questionnaire with regard to acquiring data to solve the research problem.

Yours faithfully,

Kevin Barasa

## **Appendix II: Questionnaire**

### **Part. A: Demographics.**

#### **Research Confidentiality**

The data hereby sought is meant to help the above-named student in collecting feedback necessary to develop a framework that will help the insurance industry players to enhance the level of insurance penetration.

The data collected will be treated with utmost confidentiality and at no time will the respondent be required to inscribe their names or personal details on the questionnaire. The data will be used solely for academic purposes and if need be the results of this study can be availed to the respondents.

#### **Research Objectives**

**Insurance penetration implies the rate of uptake of insurance products and services within a country.**

- a) Identify the key determinants of insurance penetration in Kenya.
- b) Identify the challenges that hamper insurance penetration in Kenya.
- c) Review the strategies or models that are in use in Kenya.
- d) Propose a framework for adoption in the insurance industry to enhance penetration in Kenya.
- e) Validate the proposed insurance framework for enhancing the penetration

#### **Instructions for filling the Questionnaire**

- Please ensure you have ticked all the boxes on the questionnaire with regard to your firm.
- Kindly feel free to enquire on areas that are technical or you are not privy to the information being sought.
- All the responses made should be in regard to your firm. Your honesty will be highly valued in this study.

**For Enquiries feel free to contact:**

Kevin Barasa

Strathmore Business School

**Part A: DEMOGRAPHIC DATA**

**Kindly tick on the appropriate box with regard to the below statements.**

A1. Gender Male  Female

A2. Age Bracket below 21 yrs  21-29 yrs.

30-40 yrs.  Above 40 yrs.

A3. How long have you worked for the insurance firm?

1-3 yrs.  4-6 yrs.

7 and above

A4. Please indicate the size of your organization?

Less than 100 Employees

Between 100-500 Employees

Over 500 Employees

**Part B: Factors that influence the level of insurance penetration Services in Kenya.**

Please indicate the extent to which you agree with the following statements regarding the penetration of insurance in Kenya by using a scale of 1-5, where 1=strongly agree 2=agree 3= fair 4=disagree and 5=strongly disagree. Tick inside the box that best describes your opinion on the question asked.

## 5. Determinants

	Strongly Agree.	Agree.	Moderate.	Disagree	Strongly Disagree.
The regulatory framework supports better insurance penetration.					
The regulatory framework creates a conducive environment to support penetration of insurance.					
Regulatory compliance offers incentives towards broadening the insurance penetration.					
There is a clear guideline within the law on ways of enhancing insurance penetration					
The public has information regarding the availability of insurance products and services.					
The public has knowledge of the benefits of insurance policies.					
Insurance firms do create much awareness to the public on the different insurance products.					
The public has trust towards the insurance industry.					
Insurance products are not complex to the public.					
The insurance products are not expensive for the public.					
Insurance products have a country-wide marketing strategy.					

Insurance firms have become innovative in distributing and marketing their products.					
The insurance market is not fully tapped.					
A conducive market exists for insurance products.					
The population has sufficient disposable income to enable more insurance uptake.					
Increase in community outreach programs would enhance insurance penetration.					
Introducing products and services meeting customer demands would enhance insurance penetration.					
There are larger benefits in acquiring insurance cover.					

6. In your own opinion to what extent do the following determinants influence the level of insurance penetration in the country?

	Extensively	Moderate	Minimal
<b>Regulatory Framework</b>			
<b>Insurance Marketing</b>			
<b>Public Trust/Risk Attitude</b>			
<b>Price of Policy</b>			
<b>Customer Awareness</b>			
<b>Education Level</b>			
<b>Government Participation</b>			
<b>Innovation</b>			

**7. From your own consideration what other factors would you consider to determine the level of insurance penetration?**

.....

.....

.....

.....

**8. Challenges**

	Strongly Agree.	Agree.	Moderate.	Disagree.	Strongly Disagree.
There is no innovation within the insurance industry.					
Insurance firms do not differentiate their products.					
There is little market research on the needs of the clients.					
Insurance products are offered in a concentrated area without branching out of other areas.					
The insurance products are highly priced.					
Clients do not feel the value for their money due to low-quality insurance products.					
The insurance industry does not have a standardized product price.					
No adoption of technology to enhance purchasing or payments of premiums					
There is no regulation on the pricing of insurance products.					
Insurance firms have poor customer service.					
Insurance firms have no feedback channels for clients to voice their concerns.					
Poor claim handling and repayments.					

Lack of technology adoption within the industry.					
--	--	--	--	--	--

9. What other factors would you consider as a challenge to the levels of insurance penetration?

.....

.....

.....

.....

10. In the below box kindly indicate the level to which the following strategies enhance market penetration better as practiced within your firm?

	Extensively	Moderate	Minimal
Strategic Alliance			
Product Innovation			
Customer Demand			
Government Involvement			
Pricing			

11. In your own view what should insurance firms do to improve penetration of insurance services?

.....

.....

.....

.....

12. Does the regulatory framework support insurance penetration in your own view?

Yes \_\_\_\_\_

No \_\_\_\_\_

13. Has the government done enough to encourage insurance penetration? Explain?

.....  
.....  
.....

**14.** What policy recommendations would you offer towards enhancing insurance penetration?

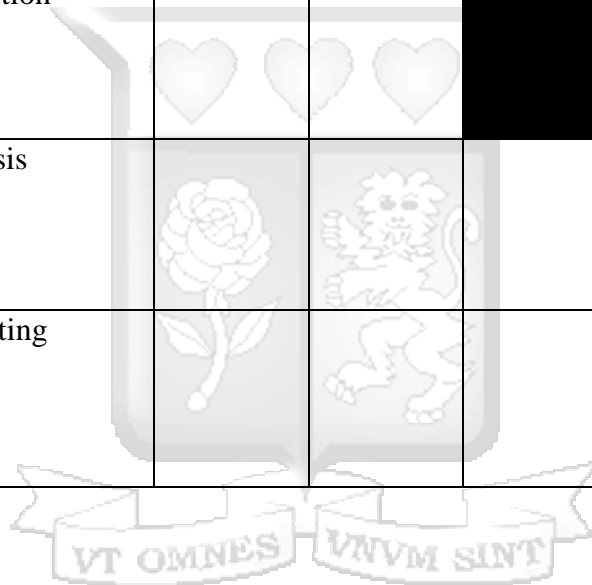
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.....  
.....  
.....

*Thank you for your participation and we look forward to sharing with you the Research findings when it is complete.*



**Appendix III: Work Plan**

	<b>AUG</b>	<b>SEPT- NOV</b>	<b>JAN</b>	<b>FEB</b>	<b>MAR</b>
Formulation of the problem.					
Proposal writing					
Data collection					
Data analysis					
Thesis Writing					



**Appendix IV: Budget**

<b>Printing</b>	3500
<b>Photocopying</b>	1500
<b>Travelling</b>	4500
<b>Airtime</b>	1500
<b>Research Asst.</b>	10000
<b>Miscellaneous</b>	2000
<b>Total</b>	22000



**Appendix V: Framework Validation Tool**

In the below validation tool kindly use the rankings; **5 = strongly agree, 4 = agree, 3 = Moderate Agree, 2 = disagree, 1 = strongly disagree** to rank the framework measurement metrics.

Framework Component	Activities/ Outputs	Measurement Metrics	Rankings				
			1	2	3	4	5
<b>Policies</b>	Identity, and develop policies geared towards enhancing insurance penetration. Identify the main objectives of the insurance penetration framework?	Does the firm have in place policies to support better insurance penetration? Using the framework are there key objectives that come to mind that can enhance insurance penetration?					
<b>Firm Specific Factors</b>	Organization structure supports insurance penetration. The firm has sufficient finances to support insurance penetration. Firm personnel has sufficient capabilities to support insurance penetration. Management goals support insurance penetration.	Does the organization structure support insurance penetration? Does the firm have sufficient finances to support better insurance penetration? Do the firm human resource personnel capabilities sufficient to support insurance penetration? Are the management goals supportive of insurance penetration?					

**Table 5.1 Cont'd**

<p><b>Technology</b></p>	<p>Ensure adequate infrastructure installations are in place to support the insurance penetration framework. The firm has supported innovative product roll outs. Technology has bolstered effective claim and premium handling. Technology has boosted customer awareness and customer service.</p>	<p>Do you have adequate infrastructure within the firm to support insurance penetration? Is the firm oriented towards innovative products that will foster insurance penetration? Has technology supported the effective claim and premium handling?</p>					
<p><b>Customer Awareness</b></p>	<p>Personnel within the firm are trained on better customer support. Insurance products are oriented towards customer wants.</p>	<p>Are personnel within the firm trained on better customer support? Are insurance products aligned to customer wants?</p>					

**Table 5.1 Cont'd**

<p><b>External Factors</b></p>	<p>An environment that supports personnel growth and sharing of ideas.          An environment that supports adequate research and development within the firm?          The regulatory requirements support better insurance penetration.          The firm has designed an elaborate distribution channel within the market.          The firm faces threats from new entrants?          Bargaining power of suppliers and buyers poses a challenge to insurance penetration.          There is a minimal threat from substitute products?</p>	<p>Does the firm recognize the capabilities of its personnel?          Does the firm support personnel productivity by creating a conducive environment?          Does the firm environment foster the competitive edge of the organization?          Does the regulatory support better insurance penetration?          Does the external environment support the firm's distribution channel?          Are there any threats to insurance penetration from new entrants?          Does the bargaining power of suppliers affect insurance penetration?          Bargaining power of buyers has an influence on insurance penetration?          Is there any threat from substitute products to insurance penetration?</p>					
<p><b>Framework Propositions</b></p>	<p>Seeks to meet customer needs and offer realizable benefits.          Support innovation within the insurance institutions.          Support better product marketing and distribution.</p>	<p>-Are customers aware of the benefits of the insurance products?          Are the insurance products meeting the customer needs?          Are the insurance products quite innovative to meet clients and market needs?</p>					

**Table 5.1 Cont'd**

Component Subtotal Ranking			0	0	0	0	0
Framework Component	Activities/ Outputs	Measurement Metrics	Rankings				
			1	2	3	4	5
Existing framework current challenges	Identify the shortcomings of the current insurance penetration framework?	Are there shortcomings in the current strategy? Is the current strategy resulting in poor insurance penetration? Is the current framework too rigid? Has the current framework failed to maintain a competitive edge?					
Effects of the current challenges on insurance penetration.	Outline the effects of the current framework on insurance penetration	Is the current framework adequate? Is the current framework realigned to the organization objectives? Is the current framework supported by the personnel? Is the current framework able to support better insurance penetration? Does the current framework support routine evaluation? Is there sufficient infrastructure rollout to support the framework?					
The proposition of a suitable framework for insurance penetration.	From reviewing of existing information identify essential data that can enhance insurance penetration.	Is data on insurance penetration readily available? Is information easily accessible? Are the personnel adequately trained on the framework application? Is the framework realigned to the entire firm structure/departments? Is there adequate infrastructure to support the framework rollout? Is the regulatory framework supportive?					
Validation of the proposed model	Information generated allows for the selection of the framework. The framework has been released to users to offer necessary feedback. The insurance penetration framework has been adopted.	The framework selection has been conducted thoroughly? Is there a forum that allows for capturing of feedback? Have all the target users been serviced with the framework? Are the target users willing to accommodate the framework?					
<b>Feedback</b>	Adoption of the framework has enhanced insurance penetration.	Is the insurance penetration better with the framework adoption? Has a system been developed to support the framework and enhanced insurance penetration? Are there sufficient monitoring and evaluation plans?					

**Table 5.1 Cont'd**

<b>Component Sub-Total Ranking</b>					<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Framework Component</b>	<b>Activities/ Outputs</b>	<b>Measurement Metrics</b>	<b>Rankings</b>						
			<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>		
Feedback mechanism	Information shared by personnel and stakeholders on the gaps in the framework. Adjustments made based on informed decisions from the proposed model and shareholders critiques.	Has new information been shared by stakeholders? Are there any follow-up steps in view of the shared information?							
<b>Component Sub-Total Ranking</b>					<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Overall Total Ranking</b>					<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>