COMPETITIVE STRATEGIES ADOPTED BY INSURANCE COMPANIES IN RWANDA

BY

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DECLARATION

I, Kampire Charity, hereby declare that this project is my own work and effort and that it has not been submitted anywhere for any award.

Signed: …………………………………...   Date: …………………

Kampire Charity

D61/64502/2010

This Project has been presented with my approval as the university supervisor

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DEDICATION

For my beloved parents , Mr. and Mrs E. Kanaburenge for their efforts and encouragement during all the tough days I passed through that shaped me to what I am today.

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LIST OF ABBREVIATIONS AND ACRONYMS

AMIR	Rwanda National Association of Microfinance Professionals
BRD	Banque Rwandaise de Dévelopement
BTI	Bertelsmann-Transformation-Index
CCNMF	National Consultative Committee for Microfinance
CEO	Chief Executive Officer
COMESA	Common Market for Eastern and Southern Africa
CSR	Social Security fund of Rwanda
EAC	East African Community
EUI	Economist Intelligence Unit
GDP	Gross Domestic Product
HP	Hewlett Packard Ltd.
IBM	International Business Machines
ICT	Information and Communication Technology
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MFI	Microfinance Institutions
MINECOFIN	Ministry of Finance and Economic Planning
NMS	National Microfinance Strategy
NPLs	Non-performing loans
PEST	Political, Economic, Social and Technological factors
RWF	Rwandan Francs
SACCOs	Saving and Credit Cooperatives
SMEs	Small and Medium Enterprises
SWOT	Strengths Weaknesses Opportunities Threats

ABSTRACT

This paper was a survey that sought to establish the competitive forces in the Rwandan market that affected the manner in which insurance business was conducted. It also sought to find out the competitive strategies the insurance companies in Rwanda adopted in face of the various forces of competition. The research was a survey that was to include all the insurance companies in Rwanda. Primary data was to be used to conduct the research. According to the results the most felt forces were; Price wars with competitors, High costs of customers switching from a competitor to your companies, Wider branch networks of competitors, with mean scores 3.50, 3.00, and 2.50, and the least felt forces were; application of e-commerce, Competitive lending from Microfinance institutions, Poaching of staff, with the mean scores; 1.25, 1.50, and1.50, respectively. In response to the strategies the most used strategies were; Improving product quality, Expenditure in ICT, Widening the current network of branches, with mean scores; 4.50, 4.25 and, 3.75. Strategies that were least used are; Reducing product range/items ,raising prices ,efforts towards Merger and Acquisition laying-off of employees with the mean scores; of 1.75, 1.75, and 2.25, respectively. Study recommends that the insurance industry in Rwanda should be reorganized to allow for more competition. In a competitive market the most efficient and productive companies survive, while poor and inefficient firms get naturally weeded out. The government should reduce its presence in the insurance industry to allow for more competition from within and without the country. Mechanisms should be put in place to make the insurance industry more aggressive. An aggressive business environment improves quality of service while driving down prices for the good of the consumers of insurance products.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The liberalization of trade is a declared governmental objective in Rwanda. The integration into COMESA (Common Market for Eastern and Southern Africa) and, particularly, full membership in the East African Community (EAC) as well as privatizations and sale to foreign investors of key sectors of the economy are some of the important efforts that have been realized. The insurance industry is free and continues to improve, although it remains small and poorly developed. Most insurance companies are small, making the level of risk in Rwanda high and unhinged (BTI, 2010).

This scenario opens the insurance market to players within and out of Rwanda as currently many of the few available insurance companies in and out of Rwanda are establishing stronger presence. The result is higher competition for the small and now shrinking market. To survive, the insurance firms have to change with the dynamics of the industry (Porter (1980). This, therefore, leads to the need to have in place strategies that will enable the insurance firms to survive competitively in this increasingly getting harsher environment.

This unique Rwandan environment featured with: more efficient, but not democratic governance; highly ethnically polarized society; scarce financial resources and human resources that are politically selected; high inflation and fast population growth; massive structural constraints on governance; a market economy operating under a weak institutional framework; liberalization of foreign trade; strong government influence in

the whole financial sector, etc, provides the incentive to come up with unique strategies that will make any insurance firm to gain competitive advantage(BTI, 2010).

1.1.1 Competitive Strategies

Competitive strategy provides a company with the actions to create offensive or defensive positions in an industry and thereby yield a superior return on investment. According to Porter (1985) a business should adopt a competitive strategy to secure a competitive advantage. Competitive advantage is anything, which gives one organization an edge over its rivals in the products it sells or the services it offers.

Drucker (1973) posited that management has no choice but to anticipate the future, to attempt to mold it, and to balance short-range and long-range goals. The common theme in competitive advantage is value creation. However, there is not much agreement on value to who, and when. According to one school of thought, value is created by favorable terms of trade in product markets, that is, sales in which revenues exceed costs. A second school of thought holds that advantage is revealed by "super-normal" returns. A third school of thought ties advantage to superior stock market performance.

Barney (2002) says that a firm experiences competitive advantages when its actions in an industry or market create economic value and when few competing firms are engaging in similar actions. Barney goes on to tie competitive advantage to performance, arguing that a firm obtains above-normal performance when it generates greater-than-expected value from the resources it employs. Porter (1996) argues that competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a

unique mix of value. Competitive strategy refers to strategic positioning which can be based on customers' needs, customers' accessibility, or the product mix. Strategy therefore is the creation of a unique and valuable position involving a different set of activities (Spulber,2009).

1.1.2 Insurance industry in Rwanda

Rwandan insurance sector is well capitalized and profitable despite the low penetration rate of below 10 percent for middle-income countries according to recent data. The insurance sector is developing as depicted by insurance penetration, which is about 2.3 percent though still less than 10 percent average for middle income economies. The country's insurance sector rose by 12.1 percent reaching Rwf143.7 billion from Rwf128 billion by the end of December 2010 (BNR, 2010).

There are new insurance laws that are set to boost Rwanda's insurance industry, and raise penetration which is currently at one percent of the nation's Gross Domestic Product (BNR, 2010). The new insurance law came into force in March 2009, and a pension reform law was adopted recently. These laws, which designate the BNR as the regulator for the insurance and pensions sectors, represent a significant step in developing regulation for this growing industry. The insurance law establishes rules for licensing, supervision, control and regulation of the insurance profession and insurance intermediaries. Several companies have yet to comply with these requirements, which may result in either consolidation or specialization in the industry, but may decrease competition as barriers to entry are increased. In fact, entry of foreign insurance companies is expected (IMF, 2011).

There has been serious price-war among the eight licensed firms in the insurance sector – particularly with regard to automobile insurance. Companies engaged in predatory pricing without regard to ultimate losses or capacity to pay claims. The expertise of insurance agents and brokers is also quite low according to the insurance companies and the current insurance supervisor. This lack of capacity exacerbates the predatory pricing problems of the industry. Other weaknesses in the sector include a lack of a uniform financial statement format and instructions, lack of any investment standards – particularly in regard to diversification and anti-concentration of risk standards, allowing the combination of both life and non-life insurance in the same corporate entity, which creates opportunities for disintermediation vis-à-vis the long-term nature of life products and the short-term nature of many non-life products, and lack of clear direction regarding corporate governance and risk-based management and supervision (Murgatroyd, Dry, Power & Postgate, 2007).

The liberalization of foreign trade is a declared governmental objective. The integration into COMESA and, particularly, full membership in the East African Community (EAC) as well as privatizations and sales to foreign investors of key sectors of the economy (e.g., coffee, tea, banking, and telecommunication), are some of the important efforts that have been realized. This has opened up foreign investment in Rwanda in the banking sector despite the poor performance of economically relevant agencies (BTI, 2010).

1.2 Research Problem

The strategic positioning of an insurance organization is the product of its internal factors and its external factors and this positioning gives it the competitive edge (Porter, 1985). These factors are analyzed and their strengths determined in order to combine them into a strategic positioning that will generate competitive edge different and above the competitors. Competitive strategy will be how a company competes in a particular business through gaining a competitive advantage in a distinctive way. Competitive advantage is the strategic advantage one business entity has over its rival entities within its competitive industry. Achieving competitive advantage strengthens and gives a business a better position within the business environment.

Doing insurance business in Rwanda is increasingly becoming a challenge to both established and newly establishing insurance firms. This is compounded by the fact that Rwanda is a small country by geographical size and population with a rising number of insurance firms. Further, the country is struggling out of serious political turmoil but with a desire to get the country back to shape as demonstrated by the strategies laid down by the Rwandan Government (MINECOFIN, 2010). Coupling these with an increasingly crowding insurance environment creates the need for the insurance companies to come up with competitive strategies that will enable them to compete profitably and be able to survive. It is not explained how the insurance companies in Rwanda gain this competitive advantage.

Several studies like Matswa (2010), have studied the strategies used by the insurance firms in Kenya to gain competitive advantage in the dynamic Kenyan insurance market. Matswa (2010) studied the strategies used by all the insurance firms in Kenya while with the aim of determining the strategic responses adopted by insurance companies in Kenya to deal with environmental changes, the focus being on political, economical, social and technological aspects of the external environment. It was guided by the need to find out the strategic responses to changes in the external environment by insurance companies in Kenya. Another study conducted by the Rwandan ministry of Finance and Economic Planning which enumerated the SWOT factors in the Rwandan financial market (MINECOFIN, 2009).This paper was a survey that sought and established the factors in the Rwandan market that affect the manner in which insurance was conducted. The study covered the macro, meso and micro levels of the Rwandan economy. Therefore, a knowledge gap exists regarding strategies adopted by insurance companies in Rwanda to cope with this increasingly becoming competitive environment. This leads to the need for this study which addresses this important and yet unanswered question: What competitive strategies have the insurance companies in Rwanda adopted for this type of competition?

1.3 Objectives of the Study

This study had the following two objectives:

i) To determine the forces of competition insurance companies face in Rwanda
ii) To establish the competitive strategies adopted by insurance companies in Rwanda.

1.4 Value of the Study

This study will be useful to other investors who might want to invest in Rwanda or other places or markets that may have features similar to those of current Rwanda. The current increasing collaboration within the East African Community (EAC) will lead to increasing international investment in Rwanda or other regions that may have similar environments. This research will provide direction to investors meeting similar challenges elsewhere as the EAC integrates.

A careful analysis into how insurance companies are responding to the market forces in Rwanda will, possibly, expose some of the weaknesses of their responses. This is good for then the insurance companies will be able to make changes to their strategies and align them better to the environment be it coming out more strongly in some areas or reducing their forces in response to situations that may be of less significance to profitability. This research is of scholarly utility. The methodology and findings of this research will be of use in further research. Those who will be carrying out similar research or need to enhance an argument requiring the methods and findings of this research will find it useful.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on competitive strategy in the insurance industry. The chapter begins with how strategy is generated from the industrial environment and industrial analysis, and the various types of strategic responses. A company can use one, or a combination, of the various strategies discussed depending on the nature of the competition in the industry.

2.2 Industry Competitiveness

An industry is that group of firms producing products that are close substitutes to each other. According to Mc Fetridge (1995), a competitive industry is one comprising firms operating profitably in open markets on a sustained basis. Cost, profit and productivity are some possible indicators of competitiveness at the industry level. The term competitiveness can be applied at the industry or sector level too. In modern business many companies produce more than one product or service; therefore, it is often difficult to clearly define an industry. In order to assess the current strategy of a company, and its appropriateness and potential for success, one must understand the dynamics of the industry in which the company competes. This takes a great deal of careful thought and analysis. In Porter's argument, the essence of formulating competitive strategy is relating a company to its environment. This means that one must thoroughly understand the company and its industry, as well as the outside environmental forces that affect the industry, in order to be successful in this pursuit (Porter, 1980).

The main points in an industry analysis as: the industry's dominant economic characteristics; the kinds of competitive forces the industry members are facing; the factors driving industry change and what impacts they have (such characteristics as changing social trends, demographics, regulatory issues, etc); the market positions that rivals occupy and knowing which insurance company is strongly positioned and which one is not; the strategic moves that rival companies are likely to make next; the key factors each company must have for future competitive success; and whether the outlook for the industry present an attractive opportunity (Thompson et al, 2005).

The competition that faces a firm in an industry is well explained by the Five Forces Model of Porter. According to Porter (1980) the competitive position of a firm is derived from Supplier Power, new market entrants, competitive rivalry, buyer power and product and Technology Development. Any business requires inputs—labor, parts, raw materials, and services. The cost of inputs can have a significant effect on a company's profitability. Whether the strength of suppliers represents a weak or a strong force depends on the amount of bargaining power they can exert and, ultimately, on how they can influence the terms and conditions of transactions in their favor. Suppliers would prefer to supply at the highest price possible. Otherwise they provide no more services than necessary. If the supplier force is weak, then it may be possible negotiate a favorable business deal. Conversely, if the force is strong, then the insurance firm will be in a weak position and may have to pay a higher price or accept a lower level of quality or service.

Suppliers have the most power when: the inputs required are available only from few suppliers, the inputs required are unique, making it costly to switch suppliers, inputs the insurance firm purchases don't represent a significant portion of the supplier's business, suppliers can sell directly to customers, it is difficult to switch to another supplier, and the insurance firm does not have a full understanding of supplier's market. The power of buyers describes the effect that customers have on the profitability of a business. The transaction between the seller and the buyer creates value for both parties. But if buyers (who may be distributors, consumers, or other manufacturers) have more economic power, the ability of the business to capture a high proportion of the value created will decrease, leading to lower profits. Buyers have more power when: the industry has many small companies supplying the product while buyers are few and large, the products represent a relatively large expense for the customers, Customers have access to and are able to evaluate market information concerning, say, the firms costs, the firm's product is not unique and can be purchased from other and customers could possibly make your product themselves (Porter, 1980).

The threat of new entrants is the possibility that new firms will enter the industry. New entrants bring a desire to gain market share and often have significant resources. Their presence may force prices down and put pressure on profits. The threat of new entrants is greatest when: processes are not protected by regulations or patents, customers have little brand loyalty, Start-up costs are low for new businesses entering the industry, The products provided are not unique, switching costs are low, the production process is easily learned, access to inputs is easy, access to customers is easy, and economies of scale are minimal (Olson & Boehlje, 2010).

Substitute products are those that can fulfill a similar need to the one a business' product fills. Usually substitutes place a price ceiling on products making it more difficult for a firm to try to raise prices and make greater profits. Substitutes are a greater threat when: a company's product doesn't offer any real benefit compared to other products, it is easy for customers to switch and customers have little loyalty (Thompson et al, 2005).

Rivalry among competitors is often the strongest of the five competitive forces, but can vary widely among industries. If the competitive force is weak, companies may be able to raise prices, provide less of a product for the price, and earn more profits. If competition is intense, it may be necessary to enhance product offerings to keep customers, and prices may fall below break-even levels. Rivalry looks at the extent to which the value created in an industry will be dissipated through head-to-head competition. (Olson & Boehlje, 2010).

The response to the issues in the Five Forces model is the competitive strategy. In the Michael Porter framework, there are two high-level stages in the creation of competitive strategy, each stage corresponding to a high-level determinant of profitability. The first stage is the assessment of the attractiveness of the industry in which a given company is embedded based on a structural analysis of the industry. In this stage, called the five forces framework, five forces that influence industry attractiveness are identified, as well as the factors (e.g., number of competitors, size of competitors, capital requirements) that determine the intensity of each force and therefore the cumulative intensity of the five forces. The purpose of the five forces framework is to relate the degree (or intensity) of competition in a given industry, as qualitatively measured by the combined strength (or

intensity) of five forces, to the attractiveness of the industry, defined as its ability to sustain profitability (Porter, 1980).

The second stage of strategy creation addresses the competitive strategy available to the firm in order to achieve a strong competitive position. Ideally, a firm would want to be in a very attractive industry (e.g., pharmaceuticals) and have a strong competitive position (e.g., large pharmaceutical firms such as Smith Klein or Glaxo) within the industry (Porter, 1980). After the two stages a firm can now design a competitive strategy.

2.3 Forces of Competition

According to Porter & Millar (1985), a firm develops its business strategies in order to obtain competitive advantage (i.e., increase profits) over its competitors. It does this by responding to five primary forces: the threat of new entrants, rivalry among existing firms within an industry, the threat of substitute products/services, the bargaining power of suppliers, and the bargaining power of buyers. Firms that fall into any of the five categories pose competitive challenge to a firm.

Competitors that cut into an organization's market buy pricing their services too low in effect forcing an organization to react in a similar manner. The reduction may be as a result of new superior technology (like ATMs), superior value chain management or plain price wars. Though this reduction in prices may be beneficial to the customers, the profitability of the organization is threatened (van Heerde, Gijsbrechts & Pauwels, 2005)

Challenges arise due to similarity in organization products in that all the organizations tend to have the same products. In fact if an organization comes up with a new product it is easily imitated by the other competitors thus making it difficult to provide products

unique to the given organization. Those that manage to differentiate their products cut into the market of others as the cause a shift in customer loyalty. Some organizations come up with superior customer care, customer attraction and customer intimacy tactics that also shake the customer base of competing organization (Thompson et al, 2005).

Organizations have to play the market to avoid the always evident threat of being taken over whether in a friendly or hostile manner. The bidding firm may in light of its strategy and strength decide to buy out competition. The target organization will therefore have to provide a reaction whether to allow the takeover or provide resistance till such maneuvers expire if they don't end in a hostile takeover. If not takeovers, such aggressive moves like outright poaching of high quality staff, starting legal tussles to simply disorganize competitors can be used (Ansoff, 1965).

2.4 Competitive Strategies

A competitive strategy is a plan of how a firm will compete, after evaluating how its strengths and weaknesses compare to those of its competitors. Porter (1980, p. 35) proposed the following three generic competitive strategies: Cost Leadership that means offering the lowest costs products to the entire market; Differentiation which is offering highly unique products (as perceived by the customer) to the entire market; and focus (offering products which serve the needs of a niche segment of the market). These responses were a summary of the possible responses to the situation in the Five Forces model.

The basic premise of Porter (1980) was that for a firm to be successful (in a market) it had to compete based on one of two sources of competitive advantage: cost, i.e., by

providing low cost products, or differentiation, i.e., by differentiating its products from its competitors with respect to quality and performance. Porter also proposed that a firm needs to select its strategic target: either offering a product to the entire market ("market-wide"), or offering a product for a particular market segment. Using these two dimensions (source of competitive advantage and strategic target),

Diversification is part of the four main growth strategies defined by the Product/Market Ansoff matrix. Diversification is a form of corporate or business level strategy for a company that seeks to increase profitability through greater sales volume obtained from new products and new markets (Ansoff, 1965). Diversification usually requires a company to acquire new skills, new techniques and new facilities.

The notion of diversification depends on the subjective interpretation of "new" market and "new" product, which should reflect the perceptions of customers rather than managers. However there are three types of diversification: concentric, horizontal, and conglomerate. Concentric diversification arises when there is a technological similarity between industries, which means that the firm leverages its technical know-how to gain some advantage (Davis, 2007).

Horizontal diversification occurs when a company adds new products or services that are often technologically or commercially unrelated to current products but that may appeal to current customers. In a competitive environment, this form of diversification is desirable if the present customers are loyal to the current products and if the new products have a good quality, are well promoted and well priced. In conglomerate (or lateral) diversification, the company markets new products or services that have no

technological or commercial synergies with current products. The products, though, may appeal to new groups of customers. The conglomerate diversification has very little relationship with the firm's current business. The main reasons of adopting such a strategy are to improve the profitability and the flexibility of the company; and to get a better reception in capital markets as the company gets bigger (Abishua, 2009).

The customer intimacy strategy focuses on offering a unique range of customer services or products that allows for the personalization of service and the customization of products in order to meet differing customer needs. The companies that pursue this strategy bundle services and products into a "solution" designed specifically for the individual customer. The solutions offered rarely present the cheapest option for the customer, nor the most innovative, but are regarded as "good enough." True customer intimacy can only arrive through aligning the product development, manufacturing (where applicable), administrative functions and executive focus around the needs of the individual customer (Treacy&Wiersema,1997).

The Delta Model is a customer-based approach to strategic. The model is based on customer economics and was developed by Wilde and Haxin 2009. The center of this model is the customer. The efforts of the organizations have to focus on configuring high value-added propositions to customers which should be both creative and unique. The company wins not by beating the competition, but by achieving Customer Bonding. This stage is recognizable by a relationship based on transparency, fairness, and which produces long term benefits for all those involved (Wilde & Hax, 2009).

Blue Ocean Strategy is a way to make the competition irrelevant by creating a leap in value for both the company and its customers. Blue Oceans, in contrast to the Red Oceans, denote all the industries not in existence today—the unknown market space, untainted by competition. In Blue Oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set (Kim & Mauborgne, 2005).

Blue Ocean is an analogy to describe the wider, deeper potential of market space that is not yet explored. Like the "blue" ocean, it is vast, deep, powerful, in terms of profitable growth, and infinite. Under blue ocean strategy, there is scarcely an attractive or unattractive industry per se because the level of industry attractiveness can be altered through companies' conscientious efforts. As market structure is changed by breaking the value/cost tradeoff, so are the rules of the game (Kim & Mauborgne, 2005).

Mergers and acquisitions are strategic decisions taken for maximization of a company's growth through enhancing its production and marketing operations. They are being used in a wide array of fields such as information technology, telecommunications, and business process outsourcing as well as in traditional businesses in order to gain strength, expand the customer base, cut competition or enter into a new market or product segment. They have become popular because of the enhanced competition, breaking of trade barriers, free flow of capital across countries and globalization of businesses. In the wake of economic reforms, Indian industries, for example, have also started restructuring their operations around their core business activities through acquisition and takeovers

because of their increasing exposure to competition both domestically and internationally (Gaughan, 1999).

Without denying the need for prudent use of financial resources, Bartlett and Ghoshal believe that, for most companies today, capital is not the resource that constrains growth. Global capital markets have opened up the supply side of funding, while widespread excess industry capacity has reduced the demand side. The recent reversals in some sectors notwithstanding, most companies are awash in capital. Finance is one of the three main traditional means of gaining competitive advantage (Bartlett & Ghoshal, 2002).

Rapidly integrating markets have extended firms across borders. The share of U.S. corporate profits attributable to foreign operations, for instance, has escalated from 5 percent in the 1960s to 30 percent today. Multinational firms, once characterized as a web of autonomous subsidiaries serving local markets, are now, more likely to have globally-integrated production processes. Further, as a consequence of these developments, these firms now face a wide variety of governmental regulations and institutional environments around the world. In short, tightly integrated global operations with a rising reliance on foreign operations are the rule rather than the exception. A firm should not use the "one size fits all" approach to financing. Competitive advantage can manifest if firms identify both the obstacles an opportunities in a financial environment that includes regulatory environments, institutional environments, and tax rules (Desai, 2006).

A company's strategy consists of the business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures with the aim of strengthening its market position. These strategies provide opportunities for the organization to respond to the various challenges within its operating environment. The competitive aim is to do a significantly better job of providing what customers are looking for, thereby enabling the company to earn a competitive advantage and outsmart rivals in the market place (Ouma & Munyoki, 2010)

Warugu (2001) in his research found out that focus and product differentiation are some of the major strategies used by commercial banks to gain competitive advantage. Similarly Kiptugen (2003) in a case study of how Kenya Commercial Bank responds to the dynamic competitive environment established that proactive rather than reactive strategies such as research on changing customer needs and preferences formed the basis of its strategic planning. Mbwayo (2005) in studying anti money laundering compliance programs in commercial banks concluded that strict adherence procedures and standards have been implemented to ensure that money laundering is contained in Kenya as well as it is a competitive strategy.

In the face of slowing industry growth and new competition, today's insurance firms are under tremendous pressure to grow organically. With formidable competition from both traditional brick and mortar operations and emerging Internet organizations, a large number of insurance firms are having trouble meeting performance expectations because they are unable to differentiate their business, reach customers, and unlikely to respond to new sales opportunities or make the most of their valued staff (Genesys, 2011).

Insurance firms that define and implement solutions to these challenges are those that will successfully compete and thrive into the future. The research examined the strategic role of the contact center in retail banking, and how it can deliver the increased revenues and cost savings that will drive profitability and shareholder value. The paper argues that most conventional strategies fail to engage the customer during the key points in the decision making process, and banks may be losing sales by not being able to provide relevant information or sales and advisory assistance (Genesys, 2011).

Within operations management, the strategic role is to contribute to the debate relating to markets and agree on the markets in which a business should or needs to compete in terms of retaining customers, growing market share and entering new markets. The focus of operational strategies is not on doing things right, but doing the right things.Thisis achieved through using key resources in terms of time and money to maintain or improve a function's performance so that a service or product more adequately meets customer expectations or gives it an advantage over its competitors. The main issues that need to be considered in operating strategies are services/products range, services/products standardization versus customization, costs and profit, productivity improvements, location of facilities, managing capacity, job designing and queue management (Soteriou & Zenios, 1997).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section discusses the methods that were used in the collection and analysis of data and how presentation of findings was done. It also discusses how the objectives of the study were to be met. It specifically covers issues to do with the research design, definition of the population of study, and how data was collected and analyzed.

3.2 Research Design

The research was carried out through a survey study of the strategies used by insurance firms to gain competitive advantage in the Rwandan insurance market. It is a method similar to that used by Abishua (2010) in the study of the strategic responses used by Equity Bank to compete in the Kenyan banking industry but improved and adjusted into a survey in the Rwandan insurance industry.

The survey approach enabled the study to find out how the various insurance firms in Rwanda align themselves to the market conditions. Further, since the study was to be done on more than one firm (and the firms were only seven) a survey provided a more insightful approach for it allowed for comparison.

3.3 Population of the Study

All of the insurance firms in Rwanda were studied. According to National Bank of Rwanda (2012), which is the central bank of Rwanda, there were seven (7) registered insurance firms in Rwanda. The seven insurance firms, therefore, made up the population of the study.

3.4 Data Collection

This study utilized primary data. The primary data was collected by use of a questionnaire given to either the marketing manager or one of the staff in the marketing department of the respondent insurance company. The questionnaire was dropped at the company offices by the researcher and collected later after filling. The questionnaire to be used was an improved version of the one used by Abishua (2010) to suit the objective of this research.

3.5 Data Analysis

The questionnaire was divided into three sections. Section A one provide the general information about the insurance firms concerning their size, market share, number of branches, presence in the region, profitability, regional presence and capital structure. Section B was used to find out the competitive forces that drove competition in the Rwandan market and assessed the perceived importance of the forces. Section C was used to find out how the insurance firms responded to the forces in order to be competitive. Except for Section A, the Likert scale was the instrument of measurement.

Quantitative data was presented in the form of tables. Summary statistics like mean standard deviation, totals, percentages, were used. The mean, for instance, was used to measure the average. The standard deviation was used to measure the variance in the responses on a question. Percentages were used to measure market share based on the number of customers and the number of branches. The data was summarized into tables (for instance the distribution of responses to questions). The organization and the analysis of data was done using MS EXCEL 07 software and the findings presented in this report.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter provides an analysis of the data and the interpretation of the finding. The first part discusses the analysis of the data and addresses itself to describing the sample, giving a description of the insurance environment in Rwanda through an analysis of the general information on the insurance companies. The second part discusses the finding concerning the forces of competition. The third part discusses the strategies that were used by the insurance companies to respond to the forces of competition. An interpretation of the statistical analysis is done in the final part of this chapter.

4.2 General Information

Among the seven registered insurance companies in Rwanda, only five insurance firms responded to this section. Save for one company which had less than one hundred workers, the other four had more than a hundred workers. Two of the companies had between 101 and 150 worker while other two had more than 400 workers making them the largest based on the labour force.

The companies had varied periods of operation in Rwanda. Most had been operational for over six years. One of the companies had had the shortest operational period having been in operation for less than five years. The other four had been in operation for longer periods of time for over 28 years. Some companies did not provide information on how many branches they have throughout Rwanda. From those that gave out this information it was revealed that they had the widest network of branches in Rwanda.

Most of the insurance companies conduct their business locally. They are mostly locally owned and have local customer base. Three of the companies admitted to having a customer base out of Rwanda in Kenya, Uganda, Burundi, DRC and Tanzania. Only one company among others is a regional company, it has customers spread in most countries as it has spread to Kenya, Uganda and Tanzania. Further, other than two insurance companies which have 55 % and 10 % foreign ownership the rest are fully locally owned.

The three companies seemed to be the main competitors in the market each claiming to have above 50 % of the market. The other two claimed to control less than 30 % of the insurance market based on the customers served.

Four companies report the use of debt to provide financial leverage. One company had a debt level of less than 10 %, and another one had a debt level between 11 % and 20 %. Those that had higher levels of debt in their financial structure were ranked 41-50 % and 51-60 %. The companies did not have a lot of foreign investment

4.3 Forces of Competition Faced by Companies

The study sought to determine the forces of competition faced by insurance companies. Respondents were asked the extent to which companies faced a certain competitive forces. They were to indicate this on a five point scale where one equalled not at all and five equalled great extent. Mean scores were computed where not at all was given a score of one and greater extent a score of five. The higher the mean score, the greater the extent of the force felt. The results are shown in Table .1

According to the results the most felt forces were; Price wars with competitors, High costs of customers switching from a competitor to your companies, Wider branch

networks of competitors, with mean scores 3.50, 3.00, and 2.50, and the least felt forces were; application of e-commerce, Competitive lending from Microfinance institutions, Poaching of staff, with the mean scores; 1.25, 1.50, and 1.50, respectively.

Table 1: Analysis of Competitive Forces

COMPETITIVE FORCE	MEAN	SD
Low cost products from competitors	1.75	0.95
Loss of customers to other companies	2.25	0.95
Competitors offer a wider range of products	1.50	1.00
New companies entering the market	1.75	0.95
Threat of being taken over by a competitor	2.50	0.57
The products of the competitors are unique	1.50	1.00
Poaching of staff	1.50	1.00
Price wars with competitors	3.50	0.57
Power from the main providers of supplies to your company	2.00	1.15
Competitive lending from Microfinance institutions	1.50	1.00
Wider branch networks of competitors	2.50	1.29
Power from the major customers	2.00	0.81
Retaliation from competitors when your company changes strategy	1.75	0.95
High costs of customers switching from a competitor to your companies	3.00	1.41
Strong brand name of competitors	2.00	0.81
Use of advanced technology by competitors	1.75	0.95
Application of E-commerce by competitors	1.25	0.50
GRAND MEAN	2.00	0.59

Source: (field data)

According to table 1, the grand mean was 2.00 indicating the forces were generally weak in the business environment.

4.4 Competitive Strategies

The study sought to determine competitive strategies used by insurance companies. Respondents were asked the extent to which companies used certain competitive strategies. They were to indicate this on a five point scale where one equalled not at all and five equalled great extent. Mean scores were computed where not at all was given a score of one and greater extent a score of five. The higher the mean score, the greater the extent of the strategy used. The results are shown in Table .2

According to the results the most used strategies were ;Improve product quality, Expenditure in ICT, Widening the current network of branches, With mean scores;4.50, 4.25 and ,3.75. Strategies that were least used are; Reducing product range/items ,raising prices ,efforts towards Merger and Acquisition laying-off of employees with the mean scores; of 1.75, 1.75, and 2.25, respectively. The grand mean of the responses, according to Table 2, was 3.11 which showed a moderately strong strategic response to strategic issues in the business environment.

Table 2 Analysis of Competitive Strategies

COMPETITIVE STRATEGIES	MEAN	SD
Widening the current network of branches	3.75	1.25
Coming up with new products	3.50	1.29
Increase expenditure in marketing	2.75	1.50
Recruit more staff	3.25	1.25
Increased Financing	3.00	1.63
Expenditure in ICT	4.25	0.95
Effort in repositioning of the company	3.50	1.29
Cost reduction	3.75	0.95
Expenditure in R&D	2.75	1.70
Effort towards Merger and Acquisition	2.25	1.89
Big sales/price cut	3.75	0.95
Lay off employees.	2.50	0.57
Raise Prices	1.75	0.95
Improve product quality	4.50	0.57
Out-sourcing of work	2.75	1.25
Reduce product range/item	1.75	0.95
Making the company's product different from those of others	3.25	2.06
Provide service to a certain market segment	3.00	1.41
Increasing presence in other countries	3.00	1.63
GRAND MEAN	**3.11**	**0.74**

Source: (field data)

4.5 Discussion Of Findings

The analysis of the forces of competition and the responses seemed to show disconnect. On the one hand the data shows that the issues identified were not the strong drivers of strategy in the Rwandan market. However, the response was not indicative of the feeling that the forces were not important. The response was stronger than the indication provided by the result of the forces of competition analysis. The mismatch is deduced from the fact that the general mean of the responses to forces of competition was 2.00 while the strategic responses scored 3.11 if strategy is a response to forces of competition then, possibly the two results should have been almost equal (Ansoff& McDonnel, 1990).

In this study uniqueness of the products of the competitors scored 1.5 meaning it was not a serious issue at all. When it came to the strategic responses making the company's product different from those of others scored a high 3.25 average. Again there is a mismatch here which seems to provide an alternative view that strategy is about reacting to the environment and product differentiation is one of the strategies (Prescott & Bhardwaj, 1995). This study supports Datta (2009) who argued that Contrary to Porter's views, there is need to redefine Porter's idea of differentiation. A vast majority of the best-selling brands are likely to be in the mid-price segment that offer better quality than the competition, and carry an above-average price tag. Then a business does not need to adopt the rigid culture and philosophy of Porter's Cost Leadership strategy to achieve market share leadership.

The study was done in the context of Rwanda a country that is heavily regulated by the government and in which much cannot go on without the help of the government. It is,

partly, due to the fact that Rwanda is an economically weak country and like many such countries, the role played by governments is great. Further, like many other such governments, political patronage is a very serious issue even in business. This argument is based on the fact that one of the main insurance companies could not respond completely to the questionnaire citing the reason that it was a monopoly in its own market, the military (IMF, 2011).

The disconnection between competitive forces revealed in this paper is a pointer that there are environments, though simple and undeveloped, which may defy the postulations of Porter concerning the relationship between the environment and the strategies employed by companies to operate in such an environment. Though Porter (1994) cites the government as one of the sources of monopoly power and to that extend, this paper agrees, there seems to be a need to define clearly the environment in which the model of Porter operates effectively. Porter's research was conducted in the US where, possibly, such findings were holding. The finding of this research indicate that the findings of porter may not be universal, but dependent upon the kind of environment the business is operating in. that is to say, some businesses do not need strategy as defined by Porter to operate (Datta, 2009).

The cost reduction efforts of cost leadership strategy can be classified into three main categories: reducing unit manufacturing costs through higher unit volume, efficient scale facilities, and experience curve; exercising strict cost control over engineered costs; and minimizing discretionary costs like R&D, service, sales force, advertising, quality control, and so on. However, the last category is a kind of cost that is radically different from the other two. While reducing costs in the first two categories may be practiced by

any firm, the same cannot be said about the discretionary costs mentioned above: because such costs are more a determinant of sales than are determined by it (Isaboke, 2001). In this study, the uniqueness of competitors did not seem a strong competition driver at all. In fact most of the companies tend to produce similar products and do not have R & D departments. Even the top leaders in the Rwanda insurance market did not have R & D department. This does not support the view that the market leader cannot ignore product differentiation. In some market the market leader produces products not different from others.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is divided into five parts; the summary of findings, Conclusions of the study, Suggestions for further research, Recommendations for quality and practice and Summary of the Project. The first part provides a summary of the finding. The conclusions are provided in the second part. Suggestions for further research, Recommendations for quality and practice and Summary of the Project are given in the next parts of the chapter in the order they are stated.

5.2 The Summary of Findings

This paper was a survey that sought to establish the competitive forces in the Rwandan market that affected the manner in which insurance business was conducted. It also sought to find out the competitive strategies the insurance companies in Rwanda adopted in face of the various forces of competition. The research was a survey that was to include all the insurance companies in Rwanda. Primary data was to be used to conduct the research.

The study found that the main strategic issues in the insurance industry of Rwanda were the price wars, loss of customer to competitors, the threats of being taken over by other firms, the force of suppliers, high cost of customers switching from one company to another and the dominance of some market players using the advantage of having many branches. A firm operating in Rwanda was likely to be faced with these forces.

When faced with the challenges, most companies reacted through bringing in new products to the market, widening branch networks, recruiting more staff, more investment

in ICT. The firms were also likely to use price-related competition tactics and try to do some improvement on the products already on the market. The improvement also included making the product more unique and different from those of competing insurance companies. Some other insurance companies indicated exploring other countries to open up and diversify their clientele to include customers from other countries. The companies, however, would not reduce their product range, but would widen it instead and keep prices stable.

5.3 Conclusions of the study

The Rwandan market was found to be generally shy and not open to investors from out of the country. The companies were not aggressive players in the market and had resigned to maintaining the status quo. The main issues driving competition the insurance industry of Rwanda were the price wars, loss of customer to competitors, the threats of being taken over by other firms, the forces of suppliers, high cost of customers switching from one company to another and the dominance of some market players using the advantage of having many branches and government support. Any firm operating in Rwanda was likely to be faced with these forces.

In the face of these challenges, most companies reacted by bringing new insurance products into the market, widening their branch networks, recruitment of more staff, and more investment in ICT. The firms were also likely to use price-related competition tactics or try to do some improvement on the products already on the market. The improvement also included making the product more unique and different from those of competing insurance companies. Some other insurance companies indicated exploring other countries to open up and diversify their clientele to include customers from other

countries. The companies, however, would scale down their product range. They would, instead, widen it at stable price policy.

5.4 Limitations of the Study

This study has several limitations that make the finding not foolproof. First, the weaknesses the Likert scale which is highly qualitative. This in effect meant that the responses provided may be mere opinions of the respondent and not necessarily the situation on the ground. The Likert scale is highly dependent upon the irrationalities of the person providing the response. It is possible if the questionnaires were given to other officers in the same companies, the results would be different.

The findings are static and only address a specific instance in time, that is, the time when the questionnaires were filled. Strategic management is itself a highly dynamic activity dictated by the ever changing factors in a business internal and external strategic environment. This therefore limits the universalization of the findings of this research across time and across countries.

5.5 Suggestions for Further Research

The findings of this study can be improved if more empirical methods can be used to establish for example the market share, financial structure, the strengths of the forces of competition and such. The study can be repeated in other countries that have similarities with Rwanda, like Burundi, to establish if the situation is the same. Further, the study can be repeated some other time later to assess the changes that might have occurred.

5.6 Recommendations for Policy and Practice

Study has several recommendations to make. First the insurance industry in Rwanda should be reorganized to allow for more competition. In a competitive market the most efficient and productive companies survive, while poor and inefficient firms get naturally weeded out. If this environment was allowed to thrive, possibly the Rwandan population would have more efficient insurance products for its people.

The government should reduce its presence in the insurance industry to allow for more competition from within and without the country. Insurance by its nature is a method of mitigating risk. As such as much diversification as possible is desired. Reduced government control will allow space for more companies to develop and an entry of international insurance firms to come in for the benefit of the Rwandan economy.

Mechanisms should be put in place to make the insurance industry more aggressive. There seemed to be a tendency of the insurance firms not wanting to destabilize the perceived stability and order of things. This, though desirable, kills innovation and might encourage the thriving of an inefficient system. An aggressive business environment improves quality of service while driving down prices for the good of the consumers of insurance products.

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APPENDICES

Appendix 1: Letter of Introduction

UNIVERSITY OF NAIROBI

MBA PROGRAMME

TELEPHONE: 4184160/5 EXT. 208 P.O. BOX 30197

TELEGRAMS: “VARSITY”, NAIROBI NAIROBI, KENYA

TELEX: 22095 VARSITY

December22, 2011

The Manager,

……………………………………………………….

Dear Sir/Madam,

RE: INTRODUCTION-CHARITY KAMPIRE

I am a student of the University of Nairobi, pursuing a Masters of Business Administration degree. In partial fulfillment of the requirements for this degree, I am required to carry out a management research project on a real topic in my area of study. I am conducting a survey to find out competitive strategies adopted by Insurance companies in Rwanda to gain competitive advantage.

I kindly request you to provide the required information to the best of your knowledge by filling out the attached questionnaire. The information is strictly for academic purposes only and will be treated in the strictest confidence. A copy of the research project will be made available to you on request. Your kind assistance will be highly appreciated.

Yours faithfully, ***Charity Kampire*** ***Sign***________________

RESEARCHER

Appendix 2: Questionnaire

Please answer all questions honestly according to the given instructions

SECTION A: GENERAL INFORMATION

Complete this section by filling in the spaces

1. How many people has your company employed?______________________________
2. How many branches do you have in Rwanda?________________________________
3. How many of your branches are now profitable________________________________
4. What is your company's percentage market share in Rwanda? (Tick appropriately)

Less than 10%	
Above 10% but less than 30%	
Above 30% but less than 50%	
Above 50% but less than 70%	
Above 70% but less than 90%	
Above 90%	

5. In which other countries are you having a presence?

Uganda	
Kenya	
Tanzania	
Democratic Republic of Congo	
Burundi	
Other (specify)	

6. Do you have a market research or business development unit in your company?

YES____ NO____

7. What is the percentage of debt in the capital structure of your company?

(Tick appropriately)

0% to 10%	
11% to 20%	
21% to 30%	
31% to 40%	
41% to 50%	
51% to 60%	
61% to 70%	
71% to 80%	
Above 80%	

8. What is your estimated market share based on customers served?

0% to 20%	
11% to 20%	
21% to 30%	
31% to 40%	
41% to 50%	
51% to 60%	
61% to 70%	
71% to 80%	
Above 80%	

SECTION B: CHALLENGES FACED BY YOUR COMPANY

To what extent does your company experience each of the following challenges from competition? Please tick as appropriate.

(Key: 1= not at all; 2= little extent; 3= moderate extent; 4= great extent; 5= very great extent)

Challenges from competition	1	2	3	4	5
1. Low cost products from competitors					
2. Loss of customers to other companies					
3. Competitors offer a wider range of products					
4. New companies entering the market					
5. Threat of being taken over by a competitor					
6. The products of the competitors are unique					
7. Poaching of staff					
8. Price wars with competitors					
9. Challenges from the main providers of supplies to your company					
10. Competitive lending from Microfinance institutions					
11. Wider branch networks of competitors					
12. Challenges from the major customers					
13. Challenges from competitors' marketing activities					
14. Retaliation from competitors when your companies changes strategy					
15. High costs of customers switching from a competitor to your companies					
16. Strong brand name of competitors					
17. The dominance of few competitors in the market.					

SECTION C: COMPETITIVE STRATEGIES

To what extent does your company employ each of the following competitive strategies to cope with competition in the insurance industry? Please tick as appropriate.

(Key: 1= not at all; 2= little extent; 3= moderate extent; 4= great extent; 5= very great extent)

Competitive strategies	1	2	3	4	5
1. Widening the current network of branches					
2. Coming up with new products					
3. Increase expenditure in marketing					
4. Recruit more staff					
5. Increased Financing					
6. Expenditure in ICT					
7. Effort in repositioning of the company					
8. Cost reduction					
9. Expenditure in R&D					
10. Effort towards Merger and Acquisition					
11. Big sales/price cut					
12. Lay off employees.					
13. Raise Prices					
14. Improve product quality					
15. Out-sourcing of work					
16. Reduce product range/item					
17. Making the company's product different from those of others					
18. Provide service to a certain market segment					
19. Increasing presence in other countries					

Appendix III: List of Insurance Companies in Rwanda

1. Military Medical Insurance (MMI)
2. Phoenix Assurances of Rwanda
3. Societe Nouvelle D'Assurance Du Rwanda (SONARWA)
4. Soras Assurances Generales (SORAS AG) Ltd
5. Soras Vie Ltd
6. Compagnie Rwandaise D'assurances et de Reasssurances (CORAR)
7. Compagnie Generale D'assurances et de Reassurances (COGEAR)

(Source: National Bank of Rwanda, 2011)