

THE STRATEGIC RESPONSE BY LIFE INSURANCE COMPANIES IN KENYA TO CHANGES IN THEIR ENVIRONMENT

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BY

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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION,
FACULTY OF COMMERCE UNIVERSITY OF NAIROBI**

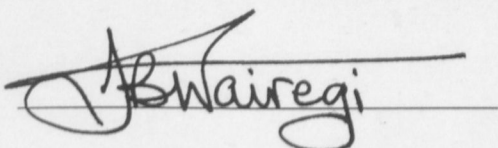
DECEMBER, 2004

DECLARATION

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

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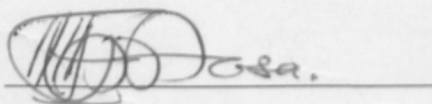
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This research project has been submitted for examination with my approval as a University Supervisor

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4/3/2005

ACKNOWLEDGEMENTS

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My pursuit of the MBA degree would not have been possible without the encouragement, support and assistance of a large number of people. Space does not allow me to name them all but I am nevertheless extremely grateful to them.

I would like to thank my wife, Margaret Wangia Wairegi for her encouragement and

To my dear wife Margaret W. Wairegi, my children Simon Wairegi, Eldad Wachira and Agnes Wambui for their love, support and encouragement.

I have had considerable help from my supervisor, Mr. Evans O. Ador who inspired me to enrol on the MBA programme and thereafter became a constant source of support and encouragement.

All my lecturers were extremely supportive but Mr. T. M. Mutitu clearly stands out.

I owe a great debt of gratitude to the Chief executives and managers of the insurance companies for the sacrifice they made by taking time off their busy schedule to complete the questionnaire.

I wish to thank Agnes Ndungu, the Deputy Commissioner of Insurance for providing me with industry statistics for the year 2012, information that was not yet available in the public domain.

Last but not least, I am greatly indebted to Marcelina for her patience in reading and typing my poorly handwritten drafts which is highly appreciated.

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ABSTRACT

Over the last 10 years there have been many changes in the Kenyan economy. These changes have had a considerable impact on all industries and the life insurance industry is no exception.

This research project was a census to determine the political, economic, social, legal and technological changes that had taken place in Kenya and the strategies that the life insurance companies had adopted to respond to these changes. In order to achieve these objectives, a questionnaire was mailed to all the companies licensed to transact life insurance business in Kenya. Economic recession, inflation, poverty, political instability and uncertainty, HIV/AIDS, income inequality between the rich and poor people and urban and between rural areas, computerization, the Internet and mobile telephony were identified as the major changes that had taken place in the country during this period.

The study established that the industry had responded to these changes through such initiatives as new product development, development of new distribution channels such as the Internet, organizational restructuring, investment in human resource development and computerization of the core business processes. The study also established that the low levels of life insurance penetration were caused by low levels of disposable income, lack of awareness by the public on the benefits of life insurance,

poor image of the insurance companies and intermediaries and lack of government incentives to the insuring public.

Despite these challenges the study established that life insurance is an attractive industry. However, of the three lines of life insurance business, that is individual life, group life and pensions, it emerged that the latter two lines of business are less attractive than ordinary life insurance business.

Finally, the study established that there were structural and legal impediments which needed to be overcome before the industry could develop and achieve a high penetration ratio. Such impediments include composite licensing, a weak industry regulatory framework and the taxation regime.

Further research on the industry can be undertaken by means of a cross sectional survey on strategic responses by the major life insurance companies who control significant market shares or by means of a census survey on strategic responses for any one of the three classes of life insurance business, namely ordinary life insurance, group life insurance or pensions.

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1.1 Background

All organizations exist as open systems. A system is considered an open system if it interacts with its environment. Organizations are therefore neither self-sufficient nor self-contained, but are environment dependent. Ansoff and McDonnell (1990) state that environment serving organizations (ESO's) are in constant two way interaction with the environment. They take in an assortment of resources from the environment, add value to them, and deliver them back to the environment in the form of goods and services. They therefore affect and are affected by external conditions that are largely beyond their control. Therefore, to successfully position a firm in competitive situations, its strategic managers must look beyond its boundaries.

According to Pearce and Robinson (2003) the modern executive must respond to the challenges posed by the firm's immediate and remote external environments. The term external environment comprises factors that originate beyond any single firm's operating environment and comprises economic and social conditions, political factors, and technological developments, all of which must be anticipated, monitored, assessed and incorporated into the executive's decision making. That environment presents firms with opportunities, threats and constraints, but is not a single firm and any meaningful managerial influence.

CHAPTER 1: INTRODUCTION

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In the last 15 years, the Kenyan economy has experienced major changes. The magnitude, speed, unpredictability and impact of these changes has been accelerating. In the early 1990's the country experienced a financial crisis which was caused by economic imbalances and political uncertainty. Globalization and liberalization have opened up the economy to fierce competition. Rapid population growth, low economic growth and unemployment have resulted in increased poverty, crime and reduced purchasing power of the population. The emergence of multiparty democracy has seen a peaceful change of government, greater openness in the society and tolerance of diverse views, the formation of the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) as regional economic blocs. New laws and regulations have been promulgated, existing ones amended while Information Technology has transformed the mode and speed of business processes and communications. On the social front higher educational levels have resulted in a more sophisticated consumer and HIV/AIDS has emerged as a major public health issue (Government of Kenya, Economic Survey 2001, 2004). In order to survive, business organizations should respond to these environmental developments.

1.2 The Insurance Industry in Kenya

Insurance is the pooling of risks by policyholders with the aim of indemnifying them from unforeseen risks. The primary function of insurance is to act as a risk transfer mechanism.

The basic principle of insurance is that the losses of the few are paid by the many. Its underlying purpose is to provide protection against the risk of financial loss, thus giving peace of mind to the policyholders. Life insurance is also a means of creating an immediate estate for one's dependants.

Insurance companies are financial institutions that function in the economy as part of the financial services industry. The financial services industry is made up of banks, building societies, insurance companies, insurance brokers, pension funds, fund management companies, stockbrokers, real estate companies, savings and credit societies etc. It has important effects on the performance of Kenya's economy, contributing approximately 11% to the Gross Domestic Product with insurance contributing about 3% to the GDP (Government of Kenya, Economic Survey 2004). Life insurance density (premiums per capita) in 2002 was US \$3 while life insurance penetration (premiums as a percentage of Gross Domestic Product) was 0.81% (Sigma 7/2003). The Kenya Government and the Association of Kenya Insurers (AKI) believe there is enormous untapped potential for long term insurance (Speech by Minister for Finance, Mr. David Mwiraria to the Association of Kenya Insurers (AKI) members on 14th September 2004, and AKI 2001 Fiscal Budget Proposals submitted to Treasury).

There are two classes of insurance business: general insurance (short term) also called property and casualty and life insurance (long term). The life insurance sector is further classified into ordinary life also called individual life, superannuation

(group life and pensions) and other life (industrial life, bond etc) while general insurance has 12 lines. As its name implies, life insurance is insurance on the life of a person, and, unlike in other forms of insurance, the event insured against in the life assurance (death and superannuation) is bound to happen, hence the term assurance (Khamalla, 1985). The twelve lines in general insurance are: Aviation, Engineering, Fire-Domestic, Fire-Industrial, Liability, Marine, Motor-Private, Motor-Commercial, Personal Accident, Theft, Workmen's Compensation and Miscellaneous.

Kandie 2001, Mwarania 2003, Kiptoo 2003). Each of these studies has focused on The total gross direct premiums collected by the whole industry in 2003 amounted to Shs.28.5 billion. Out of this, Shs.8.5 billion (30%) related to long term insurance while the balance of Shs.20.0 billion (70%) related to non life. As at 31st December 2003, the insurance industry had 42 registered insurance companies of which 39 were registered to conduct business while 2 operated as closed funds and one insurer was under statutory management. Two local reinsurers were operating in the market while four Regional and International reinsurers had representative offices in the country. Other insurance intermediaries included 212 insurance brokers, 1970 insurance agents, 200 loss assessors, 29 risk surveyors, 17 loss adjusters and 8 risk managers. (Government of Kenya, Report of the Commissioner of Insurance, 2003 and Economic Survey, 2004)

1.3 Statement of the Problem

The many changes that have occurred have altered the environment in which business organizations are operating in Kenya. They have created opportunities and also posed challenges and threats to these business organizations. A review of the literature shows that there have been several studies on organizational responses by Kenyan companies to changes in their environments (Tari 1998, Abdullahi 2000, Kandie 2001, Mwarania 2003, Kiptugen 2003). Each of these studies has focused on a specific aspect or organization and none of them has focused specifically on the life insurance industry per se.

Life insurance is an important sector in the financial services industry. It plays a vital role in the mobilization of long term savings and investments in the economy. Yet, life insurance penetration is a mere 0.81% while life insurance density is \$3.0. This is quite low compared with other African countries such as South Africa, Zimbabwe and Mauritius. We would expect that life insurance companies in Kenya, like other business organizations would also have responded (adapted) to the environmental changes. Have they done so?

1.4 Objectives of the Study

To establish the strategic responses by the life insurance companies to changes in their environment.

1.5 Scope of the Study

The study focuses on the 22 insurance companies registered and licensed to transact long term insurance business in Kenya in 2004 and whose head offices are in Nairobi.

1.6 Importance of the Study

This study is expected to benefit the following:

- (i) The life insurance industry seeking to increase the penetration ratio and density of life insurance.
- (ii) Academics and scholars. It will enrich their knowledge of the industry and identify areas for further research.
- (iii) Policymakers, seeking a better understanding of the industry in order to formulate appropriate legislation on the industry.
- (iv) Potential investors in the life insurance industry who will gain a greater appreciation of the opportunities and challenges facing the life insurance sub sector.
- (v) The public in general and the policyholders of the life insurance industry in particular who will gain new insights into the industry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature and authorities on strategy and strategic management. It explains why strategic management is an important area of general management, involving strategic diagnosis which is the process of identifying the strategic aggressiveness and organizational responsiveness that an organization needs to meet the future challenges of its environment. The chapter concludes with review of strategic responses by Kenyan companies and a discussion of the types of strategic responses available to a firm.

2.2 The Concept of Strategy

There is no agreed, all-embracing definition of strategy. It is commonly believed that our concept of strategy has been passed down to us from ancient Greeks.

Bracker (1980) argued that the word *strategy* comes from the Greek *stratego*, meaning "to plan the destruction of one's enemies through the effective use of resources". However, they developed the concept purely in relation to the successful pursuit of victory in war. The concept remained a military one until the nineteenth century, when it began to be applied to the business world (Barnes, 2000).

Chandler (1962) put forward the view that the emergence of strategy in civilian organizational life resulted from an awareness of the opportunities and needs created by changing population, income and technology – to employ existing or expanding resources more profitably. He defines strategy as the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.

Ansoff and McDonnell (1990) state that "a strategy is a set of decision-making rules for guidance of organizational behaviour. It is an elusive and somewhat abstract concept. Its formulation produces no immediate productive action in the firm and it is an expensive process both in terms of money and managerial time".

They postulate that recourse to strategy is necessary when rapid and discontinuous changes occur in the environment of the firm. This may be caused by saturation of traditional markets, technological discoveries inside or outside the firm, and/or a sudden influx of new competitors. Under these conditions, established organizational traditions and experience no longer suffice for coping with the new opportunities and new threats. Without the benefit of a unifying strategy, the chances are high that different parts of the organization will develop different contradictory and ineffective responses.

According to Mintzberg *et al* (1988) we need at least five definitions of strategy to gain a full understanding of what the concept is. The five interrelated definitions are:- strategy as a plan, strategy as a ploy, strategy as a pattern, strategy as a position and strategy as a perspective. This is not to argue that one definition should be preferred to the others. They should all be considered as alternatives or complementary approaches to strategy. They draw our attention to the distinction between conscious and unconscious strategy, and between emergent and planned strategy.

According to Pearce and Robinson (2003), by strategy, managers mean their large scale future-oriented plans for interacting with the competitive environment to achieve company objectives. A strategy is a company's game plan. A strategy reflects a company's awareness of how, when and where it should compete; against whom it should compete; and for what purposes it should compete.

Johnson and Scholes (2002) have identified several characteristics that are associated with strategy. First, strategy is likely to be concerned with the long term direction of an organization. Secondly strategy is about trying to achieve some advantage for the organization over competition. Thirdly it is likely to be concerned with the scope of an organization's activities. Fourthly strategy can be seen as the process of matching the resources and activities of an organization to the environment in which it operates. This is known as strategic fit – identifying opportunities in the business environment and adapting resources and competencies

so as to take advantage of these. Strategy can also be seen as the process of building on or stretching an organization's resources and competencies to create opportunities or to capitalize on them. This is known as strategic stretch. Strategy development by stretch is the leverage of the resources and competencies of an organization to provide competitive advantage and/or yield new opportunities. Strategies may also be seen as requiring major resource changes for an organization. Strategic decisions are likely to affect operational decisions. Finally, the strategy of an organization is affected by the values, beliefs and expectations of those who have power in the organization. Strategy is therefore a reflection of the attitudes and beliefs of those who have most influence on the organization

adequate growth can be assured. In addition, strategic management focuses more on the long-term success of the organization rather than on short-term gains. It is a process of planning and decision-making that is designed to ensure the organization's long-term success. Strategy is a potentially very powerful tool for coping with the conditions of change which surround the firm today. But it is complex, costly to introduce and costly to use (Ansoff and McDonnell 1990).

2.3 Strategic Management

Ansoff and McDonnell (1990) define strategic management as a systematic approach to a major and increasingly important responsibility of general management to position and relate the firm to its environment in a way which will assure its continued success and make it secure from surprises. It is concerned with designing and implementing a firm's adaptation to changes in its external environment; a response they refer to as strategic activity.

According to Johnson and Scholes (2002) strategic management is concerned with complexity arising out of ambiguous and non-routine situations with organization-wide rather than operation-specific implications. It involves understanding the strategic position of the firm, making strategic choices and putting strategy into action.

Barnes (2000) states that strategic management focuses on the environmental assumptions that underlie market trends and incorporates the possibility that changes in trends can and do take place, and is not based on the assumption that adequate growth can be assured. In addition, strategic management focuses more closely on winning market share from competitors rather than assuming that organizations can rely solely on the expansion of markets for their own growth (Hax and Majiluf, 1996).

Pearce and Robinson (2003) defines strategic management as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. It involves the planning, directing, organizing and controlling of a company's strategy related decisions and actions. Strategic management activities are undertaken at three levels: corporate, business and functional.

The corporate level is the top level and is composed of the board of directors and the senior management. They are responsible for the firm's financial performance and for the achievement of non financial goals such as enhancing the firm's image and fulfilling its social responsibilities. The business level is composed of strategic business unit managers who translate the statements of direction and intent generated at the corporate level into concrete objectives and strategies for individual business units. The functional level is composed of managers of product, geographic and functional areas such as production, operations, finance, marketing, human resources etc.

Strategic management is beneficial to firms and their managers. The behavioural consequences of strategic management are similar to those of participative decision making. Several behavioural effects of strategic management improve the firm's welfare by enhancing the firm's ability to prevent problems and reduction of resistance to change. The strategic management process results in better decisions because group interaction generates a greater variety of strategies and because forecasts based on the specialized perspectives of group members improve the screening of options. Strategic management planning also breeds managerial confidence. Strategic management however also has risks, such as the negative impact on manager's operational responsibilities due to the amount of time they spend on the strategic management process.

2.4 Strategic Diagnosis

Ansoff and McDonnell (1990) assert that the first step in strategic management is to perform a strategic diagnosis which identifies the type of strategic aggressiveness and organizational responsiveness a particular firm needs to develop in order to meet the future challenges of its environment. Strategic diagnosis is a systematic approach to determining the changes that have to be made to a particular firm's strategy and its internal capability in order to assure the firm's success in its future environment. This diagnostic procedure is derived from the strategic success hypothesis which states that a firm's performance potential is optimum when the aggressiveness of its strategic behaviour matches the turbulence of its environment, the responsiveness of its capability matches the aggressiveness of its strategy and the components of its capability are supportive of one another. In short, strategy must match the environment and capability must match the strategy. Strategic diagnosis determines the nature of the firm's strategic problem.

2.5 Strategic Responses

Ansoff and McDonnell (1990) note that strategic responses involve changes to the organization's behaviour. Such responses may take many forms depending on the organization's capability and the environment in which it operates. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining a competitive edge. The results of strategic activity are new products,

new services, new processes, new markets, abandoned markets, new competitive strategies for attacking the markets and new responses to social and political challenges. The overall responsibility for effective strategic response belongs to the general management of the firm.

Peters and Waterman (1982) assert that innovative companies are especially adroit at continually responding to change of any sort in their environment. When the environment changes these companies change too. As the needs of their customers shift, the skills of their competitors improve, the mood of the public pertubates, the forces of international trade realign and government regulations shift, these companies tack, revamp, adjust, transform and adapt. In short, as a whole culture, they innovate.

Tari (1998) found that as a result of HIV/AIDS scourge, life insurance companies had responded to the threat by applying experience rating, additional reserving, additional questions, non acceptance of group life proposals without accompanying pension scheme and restriction of insurance cover.

In a study of the Kenyan Insurance Industry, Abdullahi (2000) found that although economic reforms in Kenya had made the business environment very turbulent and the insurance companies agreed that there was need to respond to the changes in the environment, they had not properly adjusted to the changes. It is no wonder then that they were in a crisis.

In a study on Telkom Kenya, Kandie (2001) found that despite a major change in the environment of Telkom Kenya occasioned by the liberalization of telecommunications, the corporation's strategic aggressiveness was not consistent with the environmental turbulence and its organizational capability was not in line with the strategy. This had adversely affected the competitive position of the firm.

Kiptugen (2003) established that, as a result of the economy's progressive decline and liberalization, legislative changes and technological advances, Kenya Commercial Bank Limited had responded by restructuring its operations through closure of branches, disposal of non core assets, development of new marketing strategies, acquisition of a flexible IT system to provide better quality customer service and culture change.

Mwarania (2003) found that as a result of the phasing out of the mandatory cessions which had hitherto guaranteed business, Kenya Reinsurance Corporation Limited responded by engaging in an aggressive local and international marketing programme, organizational restructuring, investments in real estate and Information Technology. These responses resulted in increased profitability for the corporation despite reduction in gross premiums.

2.5.1 Competitive Strategy

Porter (1980) states that the goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against the five competitive forces – entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors. These five forces constitute the industry structure and it is from industry analysis that the firm determines its competitive strategy.

He has identified three potentially successful generic strategy approaches to outperforming other firms in an industry. These are, overall cost leadership, differentiation and focus. In formulating its strategic response to changes in its environment, a firm must have first decided on a core idea or generic strategy about how it can best compete in the market place. This is its strategic orientation.

2.5.2 Organizational Structure

Organizational structure is the grouping of the firm's logistic and managerial activities. This grouping of activities was stimulated by the growing size and complexity of internal operations and the growing turbulence of the firm's environment. Successful organizations once required an internal focus, structured interaction, self-sufficiency, a top-down approach. Today and tomorrow,

organization structure reflects an external focus, flexible interaction, interdependency and a bottom-up approach (Pearce and Robinson 2003).

One of the strategic responses to environmental turbulence is restructuring. At the heart of restructuring is the notion that some activities within a business's value chain are more critical to the success of the business's strategy than others. Business Process re-engineering (BPR), popularized by consultants Hammer and Champy (1993) is one of the more popular methods by which organizations have undergone restructuring efforts to remain competitive.

BPR is intended to reorganize a company so that it can best create value for the customer by eliminating barriers that create distance between employees and customers. It involves fundamental rethinking and radical redesign of a business process to achieve dramatic improvements such as cost, quality, service and speed.

Re-engineering and a value orientation have led to downsizing, outsourcing and self management as three themes influencing organizational structures. It has also resulted in the formation of strategic alliances. Downsizing is eliminating the number of employees particularly middle management in a company. Downsizing results in increased self-management, larger spans of control and more work for those that remain. Outsourcing is obtaining work that was previously done by employees inside the organization from sources outside the company. Many organizations have outsourced some activities such as information processing,

various personnel activities, and production of parts that can be done better outside the company. Outsourcing, then, can be a source of competitive advantage and result in a leaner, flatter organization structure. Strategic alliances with suppliers, partners, contractors and other providers allow partners to the alliance to focus on what they do best, farm everything else and quickly provide value to the customer.

A final aspect of organizational structure is the removal of structural barriers and the creation of the learning organization. Johnson and Scholes (2002) define a learning organization as one capable of continual regeneration from the variety of knowledge, experience and skills of individuals within a culture which encourages mutual questioning and challenge around a shared purpose or vision.

2.5.3 Marketing

Kotler (2000), defines marketing as a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others. It has also been defined as the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.

An excellent way to analyse marketing as a strategic response is to use the Product – Market Expansion Grid proposed by Ansoff (1957).

Table 1: Product Market – Expansion Grid

PRODUCTS MARKETS	CURRENT PRODUCTS	NEW PRODUCTS
CURRENT MARKETS	1. Market Penetration Strategy	3. Product Development Strategy
NEW MARKETS	2. Market Development Strategy	4. Diversification Strategy

Source: Kottler (2000)

Market penetration strategy involves marketing current products in current markets.

This is not a viable strategic response in a changing environment.

Market development strategy consists of marketing current products, often with only cosmetic modifications, to customers in new markets by, for example, adding channels of distribution or by changing the content of advertising or promotion.

Product development involves substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. An alternative term for product development is innovation. The key to success in today's competitive environment is continual substitution of new products and services which are superior to the historical products and services. Firms which do not innovate do not survive (Ansoff and McDonell, 1990).

2.5.4 Diversification

Diversification makes sense when good opportunities can be found outside the present businesses. Kottler (2000) states that a good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful. Three types of diversification are possible. The company could seek new products that have technological and/or marketing synergies with existing product lines even though the new products themselves may appeal to a different group of customers (*concentric diversification*). Second, the company might search for new products that could appeal to its current customers even though the new products are technologically unrelated to its current product line (*horizontal diversification*). Finally the company might seek new businesses that have no relationship to the company's current technology, products or markets (*conglomerate diversification*).

2.5.5 Divestiture

Divestiture involves the sale of a firm or a major component of a firm. Companies must not only develop new businesses, but also carefully prune, harvest or divest tired and weak businesses or products in order to release needed resources and reduce costs. Kottler suggests that managers should focus on the company's growth opportunities, not fritter away energy and resources trying to salvage

hemorrhaging businesses. Sometimes the cash flow or financial stability of the firm can be greatly improved if businesses with high market value can be sacrificed.

2.5.6 Leadership and Culture

According to Kotter (1990), Leadership is about coping with change. Part of the reason leadership has become so important in recent years is that the business world has become more competitive and more volatile. Major changes are more and more necessary to survive and compete effectively in this new environment. More change always demands more leadership. Pearce and Robinson (2003), observe that organizational leadership involves action in first guiding the organization to deal with constant change by embracing change, clarifying strategic intent and shaping the culture to fit with opportunities and challenges that change affords and second, identifying and supplying the organization with operating managers prepared to provide leadership and vision.

Ansoff and McDonnell (1990) characterize organization leadership as general management capability. They define general management capability as the propensity and ability of the general management to engage in behaviour which will optimize attainment of the firm's near and long term objectives. They see general management's role as that of a developer of the firm's future. The successful performance of this role requires a climate within the firm which welcomes and seeks change, a competence to anticipate, analyze and select attractive

opportunities. They recognize that general management capability is determined by qualifications and mentality of key managers, social climate (culture) within the firm, power structure, systems and organization structure and capacity of general management to do managerial work.

According to Pearce and Robinson (2003) organizational culture is the set of important assumptions (often unstated) that members of an organization share in common. An organization's culture is similar to an individual's personality – an intangible yet ever present theme that provides meaning, direction and the basis of action. Insightful leaders nurture key themes or dominant values within their organizations that reinforce the competitive advantages they possess or seek, such as quality, differentiation, cost, and speed.

The most typical beliefs that shape organizational culture include a belief in being the best, a belief in superior quality and service, a belief in the importance of people as individuals and a faith in their ability to make a strong contribution, a belief in the importance of the details of execution, the nuts and bolts of doing the job well, a belief that customers should reign supreme etc.

One approach to develop a culture of quality is through Total Quality Management (TQM) whose ideas and principles were espoused by Deming (1950). TQM focuses management on the continuous improvement of all operations, functions and above all, processes of work. It is built around an intense focus on customer satisfaction,

on accurate measurement of every critical variable in a business's operation, on continuous improvement of products, services and on work relationships based on trust and teamwork. An important tool of TQM is benchmarking whose objective is to identify the "best practices" in performing an activity, to learn how lower costs, fewer defects, or other outcomes linked to excellence are achieved.

2.5.7 Information Technology

Since a large part of business activity is concerned with processing and transmitting information within and between organizations, information processing capability can improve an organization's strategic capability. The computer and developments in telecommunications are the most important aspects of Information Technology that have transformed the business environment and process. The computer has enabled the automation of many processes in business organizations which has led to dramatic improvements in productivity and reduction in costs while telecommunications have dramatically improved the speed with which information is transmitted thus facilitating speedy decision making.

Information technology has become an indispensable ingredient in several strategic thrusts that businesses have initiated to meet the challenges of change. Such strategic thrusts include internetworking, the Internet, intranets, extranets and other types of networks which have become the primary information technology infrastructure that supports the business operations. This is especially evident in

Electronic Commerce. Using information Technology for business process re-engineering frequently results in the development of information systems that help give a company a competitive advantage in the market place. These strategic information systems use information technology to develop products, services and processes and capabilities that give a business a strategic advantage over the competitive forces it faces in its industry (O'Brien, 1999).

The foregoing key components of the firm constitute a firm's potential capability. A firm's strategic response is concerned with adjustments in these components to accommodate changes in its environment and create competitive advantage for the organization.

3.3 Population

The study units consisted of all the 22 insurance companies licensed to operate in the insurance business. These 22 companies comprise 3 corporations licensed to operate in the insurance business and 17 companies licensed to operate in the insurance business.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the procedures that were employed in fulfilling the objectives of the study and answering the research question. It explains the type and rationale for the research design, the method of data collection and data analysis.

3.2 Research Design

This was a census survey. A census survey is a count of all the elements in a population. This design was considered appropriate because the population was small. A census survey therefore afforded the basis for a more comprehensive exploration of the research question.

3.3 Population

The study units consisted of all the 22 insurance companies licensed to transact long term insurance business. These 22 companies comprise 5 companies licensed to only transact long term business and 17 composite insurers. These companies are listed on Appendix 1 Page 61.

3.4 Data Collection

Both primary and secondary data was collected in this study.

The primary data was in the form of a questionnaire mailed to all the 22 insurance companies. There was one respondent for each company who was either the Chief Executive Officer (CEO) or a senior manager familiar with the company's strategy.

Secondary data was obtained from the 2002 Annual Report of the Commissioner of Insurance.

3.5 Data Analysis

Once the completed questionnaires were received back, they were checked and edited for accuracy, completeness and consistency. The data was then coded and entered into the computer to facilitate analysis. Since the data was predominantly nominal data, the simple category scale (dichotomous scale) was used as a measurement scale. Frequency tables were used for visual display. The mean, where appropriate was the population parameter computed.

CHAPTER FOUR: RESULTS AND DISCUSSION

4.1 Introduction

This chapter documents and discusses the findings on the specific areas of inquiry of the study. Results have been summarized and presented by the use of frequency tables, percentages and the mean.

4.2 The Respondents' Profiles

The total number of companies in the census was 22 insurance companies that had been licensed to transact life insurance business. All the 22 companies responded. The response rate was therefore 100%. The respondents were senior managers of their respective companies and included 7 managing directors.

The companies had been in operation for periods ranging from 11 to 102 years with 62% of the companies having been in operation for between 21 to 40 years. The average period of operation was 42.19 years with a standard deviation of 25.321. One company had been in operation for only one year (Table 1).

Table 1: Years of Operation

Number of years in operation	Frequency	% of Responses
0-10	1	4.5
11-20	2	9.5
21-30	9	42.9
31-40	4	19.0
61-70	2	9.5
71-80	3	14.3
Above 80 years	1	4.8
Total	22	100.0

Source: Questionnaires

4.3 Environmental Changes

The respondents identified economic recession, low interest rates, inflation, poverty, decline in per capita income, liberalization, poor investment climate and depreciation of the currency as some of the economic changes that had had affected the economy (Table 2).

Table 2: Economic Changes

Description of Change	Frequency	% of Responses
Economic decline	8	19.5
Low interest rates	6	14.6
Inflation	5	12.2
Poor investment climate	4	9.8
Increased poverty	4	9.8
Decline in per capita income	3	7.3
Depreciation of Kenyan shilling	3	7.3
Liberalization	2	4.9
Cooperative societies	2	4.9
Poor infrastructure	2	4.9
Recession	1	2.4
Retrenchment	1	2.4
Total responses	*41	100.0

Source: Questionnaires

* The total responses exceeded the population because some respondents had more than one response

Political developments included political instability and uncertainty characterized by political agitation, demonstrations and insecurity. The major political change however was the change in government in the 2002 general elections. The new government however had not improved the business environment as expected due to perceived poor leadership and political squabbling amongst the coalition partners and political patronage in government procurement (Table 3).

Table 3: Political changes

Description of Change	Frequency	% of Responses
New government has not improved business	10	31.3
Poor political leadership	7	21.9
Political squabbles	5	15.6
Institutions are dependent on political goodwill	4	12.5
Insecurity	2	6.3
Constitutional review stalemate	1	3.1
Demonstrations and processions	1	3.1
Low anti corruption drive/campaign	1	3.1
	1	3.1
Total responses	*32	100.0

Source: Questionnaires

* The total responses exceeded the population because some respondents had more than one response

New laws such as the Retirement Benefits Act, the Anti Corruption Act had been enacted while other laws such as the Income Tax Act, the Insurance Act had been amended with unfavourable consequences on the industry. The HIV/AIDS Prevention and Control Bill had also been tabled in Parliament (Table 4).

Table 4: Legislative and Regulatory Changes

Description of Change	Frequency	% of Responses
RBA/NSSIF/HIV/AIDS Bills	11	40.7
Tax environment is not conducive	6	22.2
Introduction of life insurance relief	2	7.4
Restricted powers of the Commissioner of Ins.	2	7.4
Competition	2	7.4
Restriction on appropriation of surplus	1	3.7
Anti corruption legislation	1	3.7
1987 Act is archaic	1	3.7
Price wars	1	3.7
Total responses	*27	100.0

Source: Questionnaire

*The total responses exceeded the population because some respondents had more than one response

On social and demographic changes, the HIV/AIDS scourge was the biggest change that had occurred and unfavorably impacted the society through reduction in the life expectancy of the population. Also majority of the population was very young and there was disparity of incomes between the rich and the poor people and between rural and urban areas (Table 5).

Table 5: Social and Demographic Changes

Description of Change	Frequency	% of Responses
HIV/AIDS has reduced life expectancy	12	30.8
Majority of people are underage	7	17.9
Disparity in incomes between urban and rural areas	6	15.4
Unemployment	3	7.7
Preference for education/savings cover	2	5.1
Introduction of free primary education	2	5.1
Corruption	2	5.1
Majority of people are in informal employment	1	2.6
Smaller family sizes	1	2.6
Death of the Harambee motto	1	2.6
Poor risk management	1	2.6
Poor image of the life insurance industry	1	2.6
Total responses	*39	100.0

Source: Questionnaires

* The total responses exceeded the population because some respondents had more than one response

On Information Technology, the Internet, computerization and mobile telephony were identified as the major changes that had favorably impacted the business environment through improvements in operational efficiency (Table 6).

Table 6: Information Technology Changes

Description of Change	Frequency	% of Responses
General improvement in efficiency	9	24.3
Internet has improved communication	9	24.3
Websites have improved marketing	6	16.2
Mobile phones have improved communications	5	13.5
Computerization has improved underwriting	4	10.8
No improvement	3	8.1
There are more products	1	2.7
Total responses	*37	100.0

Source: Questionnaires

* The total responses exceeded the population because some respondents had more than one response

4.4 Industry Attractiveness and Life Insurance Penetration

respondents would increase focus and the penetration ratio (Table 8).

On the overall attractiveness of the life insurance industry, over 73% of the respondents agreed that the industry was attractive. Barriers to entry for new players into the industry were perceived to be high. Ordinary life insurance emerged as the most attractive sector since the intensity of competition amongst existing players is relatively low, the bargaining power of both customers and suppliers (intermediaries) is weak. Group life and pensions sectors were not attractive since rivalry amongst existing players was high and the bargaining power of both customers and suppliers was high. 73% of the respondents agreed that there were many substitute products which compete with life insurance products (Table 7).

Table 7: Industry Attractiveness

Industry Attractiveness	Frequency	% of Responses
Attractive	16	72.7
Unattractive	6	27.3
Total	22	100.0

Source: Questionnaires

4.4.1 Organizational Restructuring

The penetration ratio of life insurance in Kenya was low. This was attributable to low levels of disposable income and lack of awareness of the benefits of life insurance. 68.2% of the respondents agreed that abolition of composite insurance licensing could increase the penetration ratio of life insurance by allowing companies licensed purely as life insurers to focus more on life insurance business while 77% of

the respondents agreed that hiving off the Life Insurance Council (LIC) from the Association of Kenya Insurers (AKI) and transforming it into a Life Offices Association would increase focus and the penetration ratio (Table 8).

Table 8: Causes of Low Penetration

Causes of low penetration	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Rank life insurance on levels of disposable income	21	3	5	4.33	.658	.433
Rank life insurance on Lack of government incentives to insuring public	22	1	5	3.50	1.336	1.786
Rank life insurance on Lack of government incentives to investors	21	1	5	3.33	1.017	1.033
Rank life insurance on Lack of awareness of benefits of life insurance	22	2	5	4.50	.859	.738
Rank life insurance on Poor image of the life insurance companies	22	2	5	3.77	.973	.946
Rank life insurance on Poor image of the intermediaries	21	1	5	3.43	1.326	1.757
Rank life insurance on Others (specify)	7	3	5	4.29	.756	.571

Source: Questionnaires

Note: This Table is based on 5 point Likert Scale with a score of 5 being the most important and a score of 1 being the least important.

4.5 STRATEGIC RESPONSES

4.5.1 Organizational Restructuring

Most companies in the study had undertaken various organizational restructuring processes. Such organizational restructuring included business process re-engineering (BPR) (16), downsizing (12), dropping off products or product lines (11)

Table 12: Dropped any products or product lines

Response	Frequency	% of Responses
Yes	11	50.0
No	11	50.0
Total	22	100.0

Source: Questionnaires

Table 13: Outsourced provision of office cleaning, repairs/maintenance etc.

Response	Frequency	% of Responses
Yes	19	86.4
No	3	13.6
Total	22	100.0

Source: Questionnaires

4.5.2 Marketing

Whilst 91% of the respondents had introduced new products or new features to the existing products to address such needs as education, funeral expenses, inflation, investment and protection, only 18% of the companies in the study had introduced inflation-indexed life insurance policies, while 27% had introduced unit linked life insurance policies. As regards entering new markets and developing new distribution channels 77% of respondents had opened branches within Kenya while 73% had developed new channels of distribution such as bancassurance, the Internet, direct mail, and telemarketing. However, only 27% of the respondents

had ventured outside Kenya. 27% of respondents had set up a fund management company in response to the Retirement Benefits Act. Also 54% of the companies had divested from some businesses through closure of branch offices or withdrawal of some products from the market. Tables 14 to 21 show the various marketing responses undertaken by the companies.

Table 14: Introduced new products

Response	Frequency	% of Responses
Yes	20	90.9
No	2	9.1
Total	22	100.0

Source: Questionnaires

Table 15: Selling inflation-indexed life insurance policies

Response	Frequency	% of Responses
Yes	4	18.2
No	18	81.8
Total	22	100.0

Source: Questionnaires

Table 16: Selling unit linked life insurance policies

Response	Frequency	% of Responses
Yes	6	27.3
No	16	72.7
Total	22	100.0

Source: Questionnaires

Table 17: Opened new branches within Kenya

Response	Frequency	% of Responses
Yes	17	77.3
No	5	22.7
Total	22	100.0

Source: Questionnaires

Table 18: Opened new operations/companies outside Kenya

Response	Frequency	% of Responses
Yes	6	27.3
No	16	72.7
Total	22	100.0

Source: Questionnaires

Table 19: Developed new channels of distribution

Response	Frequency	% of Responses
Yes	16	72.7
No	6	27.3
Total	22	100.0

Source: Questionnaires

Table 20: Set up a fund management company

Response	Frequency	% of Responses
Yes	6	27.3
No	16	72.7
Total	22	100.0

Source: Questionnaires

Table 21: Divested from a line of business

Response	Frequency	% of Responses
Yes	12	54.5
No	10	45.5
Total	22	100.0

Source: Questionnaires

4.5.3 Investment Portfolio

The investment portfolio is well diversified in various asset classes within Kenya (Table 22). This is in compliance with the Insurance Act. However there was very little (2.4%) offshore investment and 72% of the respondents cited regulatory restrictions as the reason for not investing offshore. This finding is corroborated by the investment channels on Table 23.

Table 22: Investment Portfolio

Investment Assets	Frequency	% of Responses
Government securities	21	16.5
Bank deposits	21	16.5
Policy loans	18	14.2
Land and buildings	17	13.4
Shares in NSE	15	11.8
Mortgage loans	14	11.0
Commercial paper (Corporate bonds)	13	10.2
Offshore securities	3	2.4
Others	4	3.9
Total responses	127	100.0

Source: Questionnaires

Table 23: Investment Channels under Long Term Insurance Business

Investment Channel	1998	1999	2000	2001	2002
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Government securities	8,353,726	9,822,452	9,628,513	12,566,040	15,244,065
Local authorities	0	0	0	0	0
Other securities	786,380	483,441	620,385	703,611	269,865
Debentures	14,101	17,440	881,528	20,764	33,276
Preference shares	5,601	316,532	25,622	24	24
Ordinary shares	3,591,634	2,533,729	1,726,287	1,856,255	1,959,135
Secured loans	1,660,435	1,669,795	1,967,606	2,096,783	2,116,099
Unsecured loans	6,056	3,000	91,545	4,152	55,000
Bank deposits	1,257,480	1,270,305	2,033,538	1,660,272	1,906,693
Land & buildings	7,113,646	7,387,305	8,162,422	7,473,062	7,690,292
TOTAL	23,890,860	23,504,408	25,137,446	26,380,963	29,274,449

Source: Government of Kenya, Report of the Commissioner of Insurance, 2002

4.5.4 HIV and AIDS

In response to the question whether HIV/AIDS was a threat to the financial health of the industry, 96% responded that the reported reduction in the life expectancy of Kenyans due to HIV and AIDS was a threat to the financial health of the life insurance industry in Kenya. Consequently 91% of the respondents had revised their underwriting requirements in response to the threat (Table 24). These underwriting requirements included, subjecting applicants to medical examinations, limits on non medical examination amounts and free cover limits, exclusion clauses and additional questions on the application form, additional reserves and removal of premium rate guarantees (Table 24).

Table 24: Have you revised your underwriting requirements in response to HIV/AIDS pandemic?

Response	Frequency	% of Responses
Yes	19	86.4
No	2	9.1
Missing	1	4.5
Total	22	100.0

Source: Questionnaires

Only 28.6% of the respondents subject all ordinary life insurance applicants to medical examinations (Table 25).

Table 25: Do you subject all applicants for ordinary life insurance policy to medical tests?

Response	Frequency	% of Responses
All applicants are subjected to medical examination	6	27.3
We have non-medical limits	15	68.5
Missing	1	4.5
Total	22	100.0

Source: Questionnaires

Very few companies (18.2%) had launched new products such as the lien option to address this challenge.

The class of life insurance business for which HIV and AIDS poses the greatest threat to the financial health of the life insurance industry emerged to be the group life business (72.7%) followed by ordinary life (22.7%), and pensions (4.5%) respectively. 82% of the respondents agreed that the proposed HIV/AIDS

Prevention and Control Bill 2004 will have a negative impact on the future growth of life insurance in Kenya.

4.5.5 Government Regulation and Legislation

95% of the companies found the various legal and legislative requirements to be burdensome at least to some degree (Table 26). They therefore had compliance officers to ensure compliance. There was near unanimous agreement (96%) that the Insurance Act should be amended (Table 27).

Table 26: Regulatory Compliance

Description	Frequency	% of Responses
Very burdensome	6	27.3
Burdensome	7	31.8
Fairly burdensome	8	36.4
Not burdensome	1	4.5
Total	22	100.0

Source: Questionnaires

The suggested amendments were conversion of the office of Commissioner of Insurance to an independent regulatory authority 68.2%, allowing bancassurance and other distribution channels 50%, removal of the requirement to invest 20% of a company's admitted assets in Government securities (45.5%), the removal of restriction on transfers of the life fund surplus to the profit and loss account (27.3%) and relaxation of restrictions on foreign investment (27%). The abolition of composite licenses was not regarded as most important (9.1%) (Table 27).

Table 27: Suggested Amendment to Insurance Act

Suggested Amendment	Mean	Std. Deviation
Conversion of the office of Commissioner of insurance into an independent regulatory authority	4.40	1.09
Relaxation of restrictions on foreign investments	3.54	1.29
Removal of the requirements to invest 20% of admitted assets in Government securities	3.95	1.25
Allowing bancassurance and other distribution channels	4.19	1.07
Relaxation of solvency requirements	2.27	1.16
Abolition of composite licenses	2.45	1.40
Removal of restriction on the transfer of life fund surplus to the profit and loss account	3.23	1.44
Others	4.50	0.57

Source: Questionnaires

On the Retirement Benefits Act (RBA), 54.5% of the respondents agreed that the Act had slowed down the growth of pensions business for their respective companies, citing the onerous and cumbersome requirements, which they found to be uneconomical and expensive for small pension schemes (Table 28). 86.4% of the respondents agreed that the government should legislate for mandatory provision of group life insurance cover and retirement benefits for employees by employers (Table 29).

Table 28: Did RBA slow the growth of pension business for your company?

Response	Frequency	% of Responses
Yes	12	54.5
No	9	40.9
Missing	1	4.5
Total	22	100.0

Source: Questionnaires

Table 29: Mandatory provision of group life and retirement benefits

Response	Frequency	% of Responses
Yes	19	86.4
No	3	13.6
Total	22	100.0

Source: Questionnaires

82% of the respondents regarded the procedures for assessing tax payable on the profits arising from the life insurance business to be complicated (Table 30). This had resulted in 73% of the companies engaging the services of professional tax consultants for advice. The provision of insurance premium relief on life and education policies had not resulted in an increase in new sales of individual life insurance.

Table 30: Are procedures for assessing tax payable complicated or straightforward?

Response	Frequency	% of Responses
Complicated	18	81.8
Straightforward	4	18.2
Total	22	100.0

Source: Questionnaires

4.5.6 Human Resources

All companies except one had a designated Human Resources Manager (Table 31). This is a recognition of the important role of human resources in an organization's performance. Also, all companies sponsored their staff for professional insurance examinations such as CII, LOMA and CPA. They also sponsored the tied life insurance agents for the Certificate of Proficiency (COP) examination. However, only 22.7% of the companies sponsor employees for higher level academic and post-graduate training. Many companies have a performance based remuneration system, principally Christmas and cash bonuses. However, only one company has an Employee Share Option Plan (ESOP). Tables 31 to 36 show the human resource management practices by the industry.

Table 31: Do you have designated HRM in your company?

Response	Frequency	% of Responses
Yes	21	95.5
No	1	4.5
Total	22	100.0

Source: Questionnaires

Table 32: Sponsorship of employees for professional Insurance exams

Response	Frequency	% of Responses
Yes	22	100.0
No		
Total	22	100.0

Source: Questionnaires

Table 33: Sponsorship of employees for postgraduate degrees in local/overseas universities

Response	Frequency	% of Responses
Yes	5	22.7
No	16	72.7
Missing	1	4.5
Total	22	100.0

Source: Questionnaires

4.5.7 Customer Service

Most respondents (81%) agreed that the economic recession in Kenya had negatively affected the persistency of their ordinary life policies at least to some extent (Table 37). It also emerged that most of the companies considered regular

Table 34: Sponsorship of tied agents for COP exams

Response	Frequency	% of Responses
Yes	15	68.2
No	7	31.8
Total	22	100.0

Source: Questionnaires

Table 35: Performance based compensation system for staff

Response	Frequency	% of Responses
Yes	15	68.2
No	7	31.8
Total	22	100.0

Source: Questionnaires

Table 36: Type of Incentive Scheme

Response	Frequency	% of Responses
ESOP	1	4.5
Christmas Bonus	9	40.9
Cash Bonus	10	45.5
Missing	2	9.1
Total	22	100.0

Source: Questionnaires

4.5.7 Customer Service

Most respondents (81%) agreed that the economic recession in Kenya had negatively affected the persistency of their ordinary life policies at least to some extent (Table 37). It also emerged that most of the companies conducted regular

customer satisfaction surveys (68.2%), had a customer complaints handling system (82%), sent regular statements to their customers (59%) and had suggestion boxes (54%). 59% of the companies had undertaken a Total Quality Management Programme (TQM) but only 14% had undertaken an ISO 9000 certification programme. Tables 37 to 43 show some of the customer service responses by the industry.

Table 37: To what extent has recession affected the Persistence of your ordinary life policies?

Response	Frequency	% of Responses
Very large extent	9	40.9
Modest extent	9	40.9
Very small extent	2	9.1
Missing	2	9.1
Total	22	100.0

Source: Questionnaires

Table 38: Do you conduct regular customer satisfaction surveys?

Response	Frequency	% of Responses
Yes	15	68.2
No	5	22.7
Missing	2	9.1
Total	22	100.0

Source: Questionnaires

Table 39: Do you have a customer complaints handling system?

Response	Frequency	% of Responses
Yes	18	81.8
No	3	13.6
Missing	1	4.5
Total	22	100.0

Source: Questionnaires

Table 40: Sending statements to customers

Response	Frequency	% of Responses
Yes	13	59.1
No	8	36.4
Missing	1	4.5
Total	22	100.0

Source: Questionnaires

Table 41: Suggestion box

Response	Frequency	% of Responses
Yes	12	54.5
No	9	40.9
Missing	1	4.5
Total	22	100.0

Source: Questionnaires

Table 42: Have you undertaken TQM programme in the last 10 years?

Response	Frequency	% of Responses
Yes	13	59.1
No	8	36.4
Missing	1	4.5
Total	22	100.0

Source: Questionnaires

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Table 43: Have you undertaken an ISO 9000 certification programme?

Response	Frequency	% of Responses
Yes	3	13.6
No	18	81.8
Missing	1	4.5
Total	22	100.0

Source: Questionnaires

4.5.8 Information Technology

Most companies had computerized their core business processes of ordinary life and group life underwriting (15 & 14 respectively), pensions (15), claims (16), payroll (20) and general ledger (20) (Table 44).

Table 44: Computerized Processes

Business Process	Yes	% of Positive Responses
Ordinary Life Underwriting	15	68.2
Group Life Underwriting	14	63.6
Pensions	15	68.2
General Ledger	20	90.9
Claims	16	72.7
Payroll	20	90.9

Source: Questionnaires

There was wide usage of personal computers and 90% of the companies had personal computers for their employees. The employees had adopted information technology tools in their jobs, in particular word processing, e-mails and spreadsheets. However, even though 95% of the companies had a branch network, the degree of internetworking between different branches was low with only 40.9% of the respondents having a Wide Area Network. Usage of E-Commerce was very low at 9.1% (Table 45).

Table 45: Usage of Information Technology

Function	Yes	% of Positive Response
Access to Personal Computers	20	90.9
Local Area Network (LAN)	17	77.3
Word Processing	22	100.0
Power Point	17	77.3
E-Mail	22	100.0
Spreadsheets	21	95.5
Branch Network	21	95.5
Wide Area Network (Internetworking)	9	40.9
Website	16	72.7
Transact business on the web (E-Commerce)	2	9.1
Teleconferencing	11	50.0
Videoconferencing	0	0

Source: Questionnaires

4.5.8 Competitive Strategy

The industry players did not pursue any one of the three generic competitive strategies of, overall cost leadership, differentiation or focus. They follow more than one approach i.e. they are "stuck in the middle". 19% of the respondents followed a differentiation strategy while 9.5% followed a focused strategy (Table 46).

Table 46: Competitive Strategy

Strategy	Frequency	% of Responses
We strive to create and market unique products	4	19.0
We focus on specific groups of customers	2	9.5
A combination of all of the above	15	71.4
Total responses	*21	100.0

Source: Questionnaires

* One company did not respond

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

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

5.2 Summary of Findings

5.2.1 Changes in the External Environment

There have been many changes in the external environment. These changes have had an unfavourable impact on the life insurance industry. They include economic recession, liberalization, inflation, political uncertainty, HIV/AIDS, taxation and regulatory policies. The only favourable external environmental change has been in the area of Information Technology where computerization and telecommunications had resulted in improvement in business processes and customer service.

5.2.2 Strategic Responses

The industry has responded to these external environmental changes through such initiatives as new product development, development of new distribution channels,

diversification, organizational restructuring, investment in human resources, customer service improvements, adoption of Information Technology and lobbying the government through the Association of Kenya Insurers (AKI).

These strategic responses however lack depth. The new products developed are protection rather than investment oriented. The potential of Information Technology to improve business processes does not appear to have been fully tapped into, and the insuring public is not aware of the benefits of life insurance. The low level of implementation of such strategic responses as, better utilization of inputs, better employee motivation, industry awareness building activities, which the Association of Kenya Insurers recommended in 1998 is an indication of the level of inertia in the industry. The industry is not innovative.

5.2.3 Industry Attractiveness

There are structural weaknesses rooted in the regulatory and taxation framework which need to be overcome before the penetration ratio can increase. Such weaknesses include composite licensing, a weak industry regulatory framework and the taxation regime

The industry is an attractive sector. However, applying the five forces framework only the ordinary life sector emerges as the most attractive sector, while group life and pensions sector are not as attractive.

5.3 Recommendations

5.3.1 Industry Structure

The management of a life insurance company needs to continually reassess the organization's strategic direction. The most important strategic issue facing a life insurance company is the need to structure its business in a way that generates long-term value for its owners, employees, policyholders and other stakeholders.

The Insurance Act should be amended to prohibit composite licensing. Companies should be licensed either as non life insurers or life insurers but not both. The Life Insurance Council (LIC) of AKI should also be hived off AKI, to form a Life Offices Association of Kenya. This would allow a more focused strategic approach to the development of life insurance.

5.3.2 Marketing

Most of the life insurance products currently being sold in Kenya are the protection type endowment and funeral expense policies. However, the volatile economic environment requires products which are inflation-indexed as well as unit-linked products where the insured shares the investment risk with the insurance company. The industry should also develop new channels for distributing its products such as bancassurance and the Internet. Advertising, sales promotion, public relations and

other awareness building programmes should be undertaken at both individual company and industry level in order to create the necessary awareness on the benefits of life insurance and improve its image. With liberalization and the development of COMESA and the East African Community, companies should exploit the emerging opportunities by diversifying their operations outside Kenya. In other words the industry should be more innovative.

5.3.3 Investment Management

Life insurance companies should invest a portion of their assets offshore. To contain the negative impact of economic turmoil such as currency devaluations and inflation, insurance companies need to protect their balance sheets. The main challenge lies in setting aside sufficient reserves and having proper asset – liability management in place. A well diversified investment portfolio can help reduce interest rate and market risks. When all assets denominated in shillings lose value due to inflation and currency devaluation, offshore investments and reinsurance offer practically the only form of asset protection.

5.3.4 Insurance Legislation and Taxation

Since its enactment in 1984, the Insurance Act Cap 487 has undergone several amendments. It requires further amendment to give the Commissioner of Insurance greater autonomy to regulate the industry and to facilitate some of the other

recommendations in this study such as prohibition of composite licensing, offshore investments, and development of new distribution channels, removal of restrictions on the distribution of life fund surplus and relaxation of the cumbersome regulations. Currently the Commissioner of Insurance is a department of the Ministry of Finance. The Income Tax Act should also be amended to simplify the process of assessing the income liable to taxation.

5.3.5 HIV and AIDS Pandemic

When the first case of HIV infection was identified in Kenya in 1984, hardly anyone would have reckoned that this was the beginning of a public health catastrophe. In 1989 the President declared HIV/AIDS a national disaster. The debilitating effects of HIV and AIDS have taken a heavy toll on the social and economic life of the Kenyan people, sapping the country's strength for economic productivity and severely undermining the standards of living and the stability of the social system. Life expectancy has fallen sharply. As of July 2002, there were 2.2 million Kenyans who were already HIV infected, 1.7 million had already died with between 500-700 deaths due to AIDS per day. The number of AIDS orphans had reached 1.1 million. Life insurance companies should therefore respond to the HIV and AIDS pandemic in line with good corporate social responsibility practices without compromising their responsibilities to grow shareholder value. Although responses to the problem by the industry such as testing and exclusion clauses are not uniform, they have met with general disapproval from both the public, civil society and the government.

5.3.6 Mandatory Provision of Group Life and Retirement Benefits

The government should give consideration to amending the Employment Act to make it mandatory for employers to provide group life and retirement benefits. Apart from improving the penetration ratio of life insurance, it would provide a social safety net for bereaved family members and employees on reaching retirement age.

Area Networks, data warehousing and E-Commerce should be adopted by the

5.3.7 Human Resources Management

An insurance company is a combination of people and technology. The motivations, intellect, skill, experience, creativity and management talents of employees ranging from senior executives to front line workers are what matter in determining an insurance company's success. These individuals, working in coordination with each other are the factors creating value and resulting profitability for the organizations. The industry has done a commendable job in developing a pool of highly qualified staff at all levels in both formal education and technical training. The industry however needs to invest more resources in improving the image of the intermediaries, particularly the tied agents. To align the interests of employees and management with those of the shareholders, the industry should adopt incentive compensation programmes such as bonus schemes and Employee Share Option Plans (ESOP's).

The [unintelligible] should provide greater leadership in ensuring that recommended strategic

5.3.8 Information Technology

Information Technology is driving change across all industries. It offers considerable scope for operational efficiency in terms of cost savings and improvement in the quality of service. The industry should deepen the utilization of information technology in its business processes. Internetworking through Wide Area Networks, data warehousing and E-Commerce should be adopted by the industry.

5.3.9 Competitive Strategy

According to Michael Porter, there are three potentially successful generic strategic approaches that companies can follow to outperform other firms in an industry. These are overall cost leadership, differentiation and focus. Individual insurance companies in Kenya do not pursue one clear generic strategy but pursue all three in combination; they are "stuck in the middle". Companies should endeavour to pursue one and not all the strategies to strengthen their strategic situation.

5.3.10 Industry Leadership

Leadership is the force that makes things happen. The Association of Kenya Insurers should provide greater leadership in ensuring that recommended strategic

initiatives which are designed to improve both the image of the industry and the penetration ratio are implemented.

5.4 Limitations of the Study

This study had various limitations. First, the length of the questionnaire. The questionnaire was long and it was therefore time consuming to complete. Second the sensitivity and complexity of the subject. Strategy and strategic management is a complex subject which goes to the core of the organization's business. Some of the responses to the questionnaire were therefore likely to be inaccurate. Finally, the data collection method. Some questions were not appropriate for a mailed questionnaire but would have been better handled through a structured one-to-one interview to facilitate probing.

5.5 Suggestions for Further Research

This study was a census focusing on all companies licensed to transact all classes of life insurance business. I would recommend a cross sectional survey on strategic responses by the major life insurance companies who control significant market shares or a census survey on strategic responses for any one of the three classes of life insurance namely ordinary life insurance, group life insurance or pensions.

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NAMES OF COMPANIES LICENCED TO TRANSACT LIFE BUSINESS

NO.	NAMES OF INSURANCE COMPANIES	COMPOSITE OR PURE LIFE
1	American Life Insurance Company (K) Ltd.	Composite
2	Apollo Insurance Company Ltd.	Pure Life
3	Blue Shield Insurance Company Ltd.	Composite
4	British-American Insurance Company (K) Ltd.	Composite
5	Cannon Assurance (K) Ltd.	Composite
6	Cooperative Insurance Company Ltd.	Composite
7	Corporate Insurance Company Ltd.	Composite
8	Geminia Insurance Company Ltd.	Composite
9	Heritage A.I.I. Insurance Company Ltd.	Composite
10	Insurance Company of East Africa Ltd.	Composite
11	Jubilee Insurance Company Ltd.	Composite
12	Kenindia Assurance Company Ltd.	Composite
13	Kenyan Alliance Insurance Company Ltd.	Composite
14	Madison Insurance Company (Kenya) Ltd.	Composite
15	Mercantile Life & General Assurance Co. Ltd.	Composite
16	Old Mutual Life Assurance Company Ltd.	Pure Life
17	Pan Africa Life Assurance Ltd.	Pure Life
18	Pioneer Assurance Company Ltd.	Pure Life
19	The Monarch Insurance Company Ltd.	Composite
20	Trinity Life Assurance Company Ltd.	Pure Life
21	UAP Provincial Insurance Company Ltd.	Composite
22	United Insurance Company Ltd.	Composite

QUESTIONNAIRE

This questionnaire seeks to identify the various environmental factors that have favourably or unfavourably affected the life insurance industry in Kenya in the last 10-15 years and to establish how the industry has responded in order to remain competitive.

SECTION A

1. Name of Company_____
2. Name of Respondent_____
3. Respondent's job title in the Company_____
4. How long has the company been operating in Kenya?_____
5. What class of insurance business is the company licensed to transact?
Long Term business/only ()
Non Life business only ()
Composite business ()
6. Please check the classes of long term insurance business that your company transacts.
Ordinary life ()
Industrial life ()
Group Life ()
Pension ()
Bond Investment ()

SECTION B

1. Developments in the external environment can have a favourable or unfavourable impact on a business. Under each of the following identified broad external factors, please highlight the major **Economic, Political, Legal, Social** and **Technological** changes that in your opinion have favourably or unfavourably affected the long term insurance industry in Kenya in the last 10 years.

a. Economic changes

- a) _____

- b) _____

- c) _____

b. Political Changes

- a) _____

- b) _____

- c) _____

SECTION C: STRATEGIC RESPONSES

c. Legislative and Regulatory Changes

- a) _____

- b) _____

- c) _____

d. Social and Demographic changes

- a) _____

- b) _____

- c) _____

e. Information Technology changes

- a) _____

- b) _____

- c) _____

f. Other changes

- (a) _____

- (b) _____

SECTION C: STRATEGIC RESPONSES

(1) Industry Structure

- (a) Looking at the current overall profitability of the life insurance industry in Kenya would you describe it as an attractive or an unattractive industry to investors?
- Attractive ()
- Unattractive ()
- (b) Are the barriers for entry by new players into the life insurance industry high or low?
- High ()
- Low ()
- (c) Is the intensity of competition among existing life insurance companies high or low?
- Ordinary Life: High () Low ()
- Group Life: High () Low ()
- Pension: High () Low ()

- (d) Comparing life insurance companies with their customers in ordinary life, group life and pension classes, is the bargaining power of customers strong or weak?

Ordinary life:	Strong	()	weak	()
Group life:	Strong	()	weak	()
Pension:	Strong	()	weak	()

- (e) Comparing life insurance companies and the intermediaries (agents and brokers) is the bargaining power of the intermediaries strong or weak?

Brokers:	Strong	()	weak	()
Tied agents	Strong	()	weak	()

- (f) Are there many substitute products which compete with the life insurance industry products?

Yes () No ()

- (g) The penetration ratio of life insurance in Kenya is considered to be very low. On a scale of 1-5, 5 being the most important and 1 being least important, please rank the following as the causes of the low penetration ratio of life insurance in Kenya.

	Most Important			Least Important	
	5	4	3	2	1
Low levels of disposable income	()	()	()	()	()
Lack of government incentives to the insuring public	()	()	()	()	()
Lack of government incentives to investors in the sector	()	()	()	()	()
Lack of awareness of benefits of life insurance	()	()	()	()	()
Poor image of the life insurance companies	()	()	()	()	()
Poor image of the intermediaries	()	()	()	()	()
Other (please specify)	()	()	()	()	()
_____	()	()	()	()	()
_____	()	()	()	()	()
_____	()	()	()	()	()

- (h) Do you agree with the suggestion that abolition of composite insurance licensing can increase the penetration ratio of life insurance by allowing companies licensed purely as life insurers to focus more on life insurance marketing?

Agree () Disagree ()

Explain

New Products

Has your company introduced new products or new features to existing products in the classes of life insurance business that you transact in the last 10 years?

- (i) In your opinion, would hiving off the Life Insurance Council (LIC) from AKI and transforming it into a Life Offices Association increase focus and the penetration ratio of life insurance in Kenya?

Yes () No ()

(2) Organizational Restructuring

- (a) Have you undertaken any of the following activities in your company in the last 10 years

	Yes	No
Business Process Re-engineering (BPR)	()	()
Reduced staff (downsized)	()	()
Entered into a strategic alliance with another company	()	()
Divested from any line of business	()	()
Acquired any new companies/businesses	()	()
Dropped any products or product lines	()	()

- (b) Have you outsourced any of the following functions?
- | | Yes | No |
|---|-----|-----|
| Investment Management | () | () |
| Provision of office or proper security | () | () |
| Provision of office cleaning, repairs and maintenance | () | () |
| Payroll processing | () | () |
| Provision of office tea | () | () |

Others (please specify)

() ()

Have you opened new branches within Kenya in the last 10 years?

() ()

Yes () No ()

() ()

Have you opened new operations/companies outside Kenya in the last 10 years?

() ()

(3) **Marketing**

New Products

- (a) Has your company introduced new products or new features to existing products in the classes of life insurance business that you transact in the last 10 years?

Yes ()

No ()

- (b) If you answered "Yes" to (a) above, please check the needs the new product(s)/features were primarily addressing?

Inflation

()

Investment return

()

Protection

()

Education

()

Retirement

()

Funeral expenses

()

Other (specify)

()

- (c) Does your company sell inflation-indexed life insurance policies?

Yes ()

No ()

- (d) Does your company sell unit linked life insurance policies?

Yes ()

No ()

New markets

- (e) Have you opened new branches within Kenya in the last 10 years
Yes () No ()
- (f) Have you opened new operations/companies outside Kenya in the last 10 years?
Yes () No ()

Distribution channels

- (g) Other than the tied agents and brokers, have you developed new channels of distribution for your products in the last 10 years?
Yes () No ()
- (h) If you answered "Yes" in (g) above, please check the new distribution channels that you developed:
- | | | | |
|------------------|-----|---------------|-----|
| Bancassurance | () | The Internet | () |
| Direct mail | () | Telemarketing | () |
| Others (specify) | () | | |

Diversification

- (i) Has your company diversified its activities into other lines of business (not necessarily insurance)
Yes () No ()
- (j) Following the enactment of the Retirement Benefits Act, did your company set up a fund management company?
Yes () No ()

Divestiture

- (k) Has your company divested from a line of business, closed a branch or withdrawn a product from the market in the last 10 years?
Yes () No ()

(4) **Investment Portfolio**

- (a) Please check the investment assets in which your company's life fund has been invested

Government Securities ()

(d) Land & Buildings ()

Bank Deposits ()

Shares in Nairobi Stock Exchange ()

Policy Loans ()

Mortgage Loans ()

(e) Commercial Paper (corporate bonds) ()

Offshore securities ()

Others ()

- (b) If you have not invested any assets offshore, which of the following is the main reason for your not doing so?

Restriction by Insurance Act ()

Lack of investment expertise ()

Lack of knowledge of available overseas investments ()

All of the above ()

- (c) Have you outsourced the management of your investment portfolio to a Fund Manager?

Yes () No ()

(5) **HIV and AIDS**

- (a) Do you consider the reported reduction in the life expectancy of Kenyans due to HIV and AIDS a threat to the life insurance industry in Kenya?

Yes () No ()

- (b) If your answer to (a) above is "Yes", have you revised your underwriting requirements in response to the HIV and AIDS pandemic?

Yes () No ()

- (c) Do you subject all applicants for ordinary life insurance policies to medical examinations or do you have non medical limits?
 All applicants are subjected to medical examination ()
 We have non-medical limits ()
- (d) Please indicate the range within which the free cover limit on your group life schemes falls?
 Shs.1,000,000 and below ()
 Between Shs.1,000,000 – 2,000,000 ()
 Above Shs.2,000,000 ()
- (e) Have you instituted any of the following measures with regard to HIV and AIDS in your company?
- | | Yes | No |
|---|-----|-----|
| (i) Exclusion clause | () | () |
| (ii) Additional (contingency) Reserves | () | () |
| (iii) Loading of premiums | () | () |
| (iv) Removal of premium rate guarantees | () | () |
| (v) Launched new products | () | () |
| (vi) Additional questions on applications | () | () |
| (vii) Lien Option | () | () |
- (f) Please rank from 1-3, with 1 being the highest, the class of life insurance business for which HIV and AIDS pose the greatest threat to the financial health of the life insurance industry in Kenya?
- | | |
|---------------|-----|
| Ordinary life | () |
| Group life | () |
| Pension | () |
- (g) If enacted, will the proposed HIV and AIDS Prevention and Control Bill 2003 have a negative impact or no impact on the future growth of life insurance in Kenya?
- | | |
|-----------------|-----|
| Negative impact | () |
| No impact | () |

5) Government Regulations/Legislation

- (a) Do you find the compliant requirements of the various legal and legislative requirements very burdensome, burdensome, fairly burdensome or not burdensome?

Very burdensome () Burdensome ()

Fairly burdensome () Not burdensome ()

- (b) Do you have a compliance officer who ensures that the company complies with all the legislative/regulatory requirements?

Yes () No ()

- (c) Please check your company's response to the recent government procurement procedures with regard to group life business from parastatals

Lobbying brokers () Lobbying government ()

Lobbying parastatal CEO's () Reduced rate quoted ()

None of the above ()

Insurance Act

- (a) Do you agree that the Insurance Act Cap 487 should be amended?

Yes () No ()

- (b) If your answer in (b) above is "Yes", please rank the importance of the following suggested amendments on a scale of 1-5, with 5 being the most important and 1 being the least important.

	Most Important			Least Important	
	5	4	3	2	1
Conversion of the office of Commissioner of insurance into an independent regulatory authority	()	()	()	()	()
Relaxation of restrictions on foreign investments	()	()	()	()	()
Removal of the requirement to invest 20% of admitted assets in Government securities	()	()	()	()	()

Allowing bancassurance & other distribution channels () () () () ()

Relaxation of solvency requirements () () () () ()

Abolition of composite licences () () () () ()

Removal of restriction on the transfer of life fund surplus to the profit and loss account () () () () ()

Please list any others

_____ () () () () ()

_____ () () () () ()

Retirement Benefits Act (RBA) 1997

- (a) Did the Retirement Benefits Act 1997 slow the growth of pension business for your company?

Yes () No ()

Please explain

- (b) Should the government legislate for mandatory provision of group life insurance cover and retirement benefits for employees by employers?

Group Life: Yes () No ()

Pension: Yes () No ()

Please explain

Income Tax Act

- (a) Do you regard the procedures for assessing tax payable on the profits arising from the life insurance business complicated or straightforward?
Complicated () Straightforward ()
- (b) Do you use professional tax consultants to calculate and advise on the corporation tax payable?
Yes () No ()
- (c) Has the provision of insurance premium relief resulted in an increase in new sales of individual life insurance in your company?
Yes () No ()

(7) Human Resources

- (a) Do you have a designated Human Resources Manager in your company?
Yes () No ()
- (b) Do you sponsor your employees for:-
- | | Yes | No |
|--|-----|-----|
| Professional insurance examinations (CII, LOMA, CPA etc) | () | () |
| Management Development Programmes | () | () |
| Parallel degrees programme in local universities | () | () |
| Postgraduate degrees in local & overseas universities | () | () |
| Other short term training programmes (IT, Customer Care etc) | () | () |
- (c) Do you sponsor your tied agents for Certificate of Proficiency (COP) Exams?
Yes () No ()
- (d) Do you have a performance-based compensation system for staff other than agents in your company?
Yes () No ()
- (d) If the answer to (d) above is "Yes", please check the type of incentive scheme that you operate
- | | |
|-----------------------------------|-----|
| Employee Share Option Plan (ESOP) | () |
| Christmas Bonues | () |
| Cash Bonus | () |

(8) **Customer Service**

- (a) To what extent has the economic recession in Kenya affected the persistency of your ordinary life policies?
Very large extent () Modest extent () Very small extent ()
- (b) Do you conduct regular customer satisfaction surveys?
Yes () No ()
- (c) Do you have a customer complaints handling system?
Yes () No ()
- (d) Do you send statements to your customers?
Yes () No ()
- (e) If the answer to (d) above is "Yes", please indicate the frequency
Monthly () Quarterly () Half Yearly () Annually ()
- (f) Do you have a suggestion box?
Yes () No ()
- (g) Have you undertaken a Total Quality Management (TQM) programme in the last 10 years?
Yes () No ()
- (h) Have you undertaken an ISO 9000 certification programme?
Yes () No ()

(9) **Information Technology**

- (a) Are the following processes/functions in your company computerized?

	Yes	No
Ordinary Life Underwriting	()	()
Group Life Underwriting	()	()
Pensions/DA Administration	()	()
General Ledger	()	()
Claims Processing	()	()
Payroll	()	()

- (b) Do you have a Local Area Network (LAN)?

Yes () No ()

- (c) Do you have branches in other towns in Kenya?
Yes () No ()
- (d) If the answer to (c) above is "yes", are the branches networked to the Head Office and to each other?
Yes () No ()
- (e) Does your company have a website?
Yes () No ()
- (f) If the answer to (e) above is "yes", do you transact any business on the web (E-commerce)?
Yes () No ()
- (g) Do most of your employees have access to a personal computer?
Yes () No ()
- (h) Do your employees use the following facilities in their work?
- | | | |
|-----------------|---------|--------|
| Email | Yes () | No () |
| Spreadsheets | Yes () | No () |
| Word processing | Yes () | No () |
| Power point | Yes () | No () |
- (i) Do you have the following facilities in your company?
- | | | |
|-------------------|---------|--------|
| Teleconferencing | Yes () | No () |
| Videoconferencing | Yes () | No () |

General

- (10) From the statements below, please check the statement that best describes your company's approach to the life insurance market in Kenya.
- | | |
|---|-----|
| We strive to achieve overall low costs | () |
| We strive to create and market unique products and services | () |
| We focus on specific groups of customers | () |
| A combination of all of the above | () |

- (11) In July 1998, the Association of Kenya Insurers (AKI) sponsored a strategic planning seminar on life insurance facilitated by a consulting firm. In your opinion, has the life insurance industry as a whole implemented the following strategic responses which were recommended by the seminar?

	Yes	No
Better utilization of inputs	()	()
Use of technology to improve efficiency	()	()
Better employee motivation	()	()
Better process management techniques	()	()
Industry awareness building activities (advertising, PR)	()	()
Lobbying the government	()	()
Self regulation	()	()
Industry-wide co-operation and investment	()	()

- (12) Do you think the Government has created the appropriate regulatory environment for life insurance to develop in Kenya?

Yes () No ()

If your answer is "no", what specific incentives would you recommend that the government provides to the industry?

- (13) Do you think the life insurance industry has been innovative in the following areas?

Developing new products	Yes ()	No ()
Improving service quality	Yes ()	No ()
Developing new distribution channels	Yes ()	No ()

Thank you very much for your responses

_____0_____