

**RESPONSES BY REINSURANCE COMPANIES IN KENYA
TO CHANGES IN THE ENVIRONMENT : THE CASE OF
KENYA REINSURANCE CORPORATION (KENYA RE)
LIMITED "**

BY

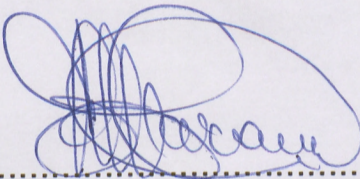
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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER
OF BUSINESS ADMINISTRATION, FACULTY OF COMMERCE, UNIVERSITY
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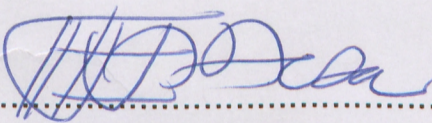
DECLARATION

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

Signed 
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Date 7th Nov 2003

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

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ACKNOWLEDGEMENT

My gratitude goes to the following for their contribution toward this research:

DEDICATION

The Almighty God for making everything possible.

Mica, Josephine and Sisoy for their patience while I spent countless hours not only on this project but the entire MBA course.

This project is dedicated to my dear parents for their deep love, foresight, encouragement and spiritual guidance.

The lower Kabete management panel for their comment at my presentation of the proposal to this project.

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The many others who assisted me in one way or another with this project. Space doesn't allow me to list them all here.

Thank you all of you.

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ABSTRACT

The objective of the study was to establish the response of Kenyan SMEs to the changes in the business environment. The study was conducted by carrying out in-depth interviews.

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ABSTRACT

The objectives of the study was to establish the response of Kenya-Re to the changes in the business environment. The study was conducted by carrying out in-depth interviews with chief executive and departmental heads. The findings confirmed that the company operates in a rapidly changing environment characterized by many challenges. These challenges include increase local and international competition, technological changes, overstaffing, bureaucratic processes due to 100% ownership by the government, poor economic performance, failed privatization attempt and lost compulsory policy and treaty business cessions.

The study established several responses by Kenya Re to the changes in the business environments it operates in. Great emphasis has been placed on local and international marketing function. There have been deliberate and focused staff training programmes developed. Retrenchments were done three times to rationalize staff. Investments were done in real estate to generate rental income and undeveloped land acquired for future speculative sale. Technology has been embraced including computerization and creation of a website. Financial investments have been spread out between short and long term ones.

The study recognizes Kenya Re is unique from the other five reinsurance companies operating in Kenya. It is state owned and was in a monopolistic position for nearly three decades. It's also a market leader. It's the only one with a single shareholder. This study therefore recommend that a study be carried out to find out the kind of responses adopted by the other reinsurance companies to changes in the business environment.

It further recommend that Kenya Re should seriously consider privatization to delink itself from the bureaucratic control of the government in the interest of quick commercial decision making on key business issues.

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CHAPTER 1

INTRODUCTION

1.1. Background

There are various types of organizations created to serve various needs of the society in which they exist. The key concern of these organizations is continued existence over time. Such continuous existence of organizations is not automatically guaranteed. These organizations have to justify their continued existence in society by their activities (Aosa, 1998).

The environment is rapidly changing making it imperative for organizations to continually adapt their activities in order to succeed. To survive in a dynamic environment their strategies need to focus on their customers and deal with emerging environmental challenges. This is necessary because they are environment serving (Ansoff, 1987).

According to Pearce and Robinson (1991) strategic response is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It is thus a reaction to what is happening in the environment of the organizations. Porter (1980) points out that knowledge of the underlying sources of competitive pressure provides groundwork for strategic agenda in action. When firms are faced with unfamiliar changes they should revise their strategies to match the turbulence level (Ansoff and Mc Donnell, 1990).

Organizations are environment dependent (Ansoff and Mc Donnell, 1990). They do not operate in a vacuum. They obtain their inputs from the environment and after transformation they discharge their outputs into the same environment (Porter, 1985). The organization's external

environment consists of all the conditions and forces that affect its strategic options and defines its competitive situation (Pearce and Robinson, 1997).

The Kenyan business environment has been undergoing drastic changes, more so since 1990s. These changes include privatization and commercialization of the public sector, increased competition, liberalization of the economy and accelerated implementation of reforms by the government as well as rapid technological advancement. Faced with this changing environment organizations have to adapt their activities and internal configurations to reflect the new external realities. Failure to do this may jeopardize future success of these organizations (Aosa, 1998). Kenya Re has to respond to a turbulently changing environment for survival.

1.2 The Insurance Industry in Kenya

The insurance industry in Kenya is governed by the Insurance Act, CAP 487 of the Laws of Kenya. There are 6 reinsurance companies and 39 insurance companies operating in Kenya. These are supported by a host of other intermediaries comprising 150 insurance brokers, 197 loss assessors and 19 loss adjusters. There are 28 insurance surveyors and one claims settling agent. Additionally, there are 1061 insurance agents and 7 risk managers (Government of Kenya, 2001)

The industry underwrites both general (short term) insurance and life assurance (long term) business. The gross direct premium for general insurance business is Kshs 16,123,814,000 while that for long-term business is Kshs 7,072,594,000. The reinsurance premium in general insurance business amount to Kshs5, 846,308,000 while that in long-term business is Kshs 554,508,000 (Government of Kenya, 2001).

Strikingly, the insurance industry has suffered serious setbacks in the past few years that saw its earnings decline significantly. The sector has been making substantial losses, most of which emanate from falsified claims, huge court awards for injuries, damages and other insurance liabilities. One of the areas where major losses are made is in transport. For instance, in 2001 motor insurance premium was Kshs3, 449,430,000 while motor insurance claims amounted to Kshs 2,235,955,000 excluding management expenses and commissions.

It is instructive that only six of the existing insurance companies have policies for "matatus", the public service commuter vehicles that are common in Kenyan roads. This is because the vehicles are accident-prone and, combined with the poor state of most roads, insuring them is extremely risky (Government of Kenya, 2001).

But the problems in the insurance industry run deep. In 1999, Parliament enacted legislation, the Finance Act, which made it mandatory for the insurance companies to invest 20 per cent of their assets on long-term government securities. Among others, this hampered their participation in the stock market and limited their investments options (Government of Kenya, 2001).

The insurance industry is at crossroads. It requires to develop new strategies to be able to navigate the tempestuous sea. To this end, it has to start by defining itself and demonstrating that the sector can mobilize long-term savings for investment. The fact is that the sector has enormous resources to attract and utilize the abundant intellectual capacity and chart out a path for sustainable national development (Government of Kenya, 2001).

Similarly, the industry has to develop and diversify its product to meet the

growing needs of the economy. The products must be appropriately designed and favorably priced to encourage low-income groups and rural dwellers. It is not lost that many insurance companies have remained fixed to traditional policies, which time has rendered irrelevant and less profitable. It should also strengthen its institutions to be able to face the emerging challenges in business (Government of Kenya, 2001).

Equally, in markets where e-commerce is the in-thing, insurance companies need to invest in information technology, develop relevant products and sell them on-line. At least, insurance companies need to think of Internet connectivity and develop web sites to make their presence be felt outside their physical locations. The insurance industry has followed closely the socio-political development in Kenya. In colonial times, the settlers, mainly of white and Asian origins, dominated the sector. The situation, however, changed after independence with the entry of more local people into the sector and the establishment of national insurance institutions (Government of Kenya, 2001).

The Association of Kenya Insurers (AKI) is a trade association for insurance companies in Kenya. Its membership is open to any insurance company registered and licensed under the insurance act to transact business in Kenya. It aims to promote efficiency, effectiveness and openness in problem solving in the insurance industry (Government of Kenya, 2001).

The Association of Insurance Brokers of Kenya (AIBK) is a professional body for registered brokers in Kenya. The membership currently stands at 70 out of the 150 registered brokers. The Insurance Institute of Kenya (IIK) is a professional body for insurance personnel. Established in 1948, the Insurance Institute of Kenya is a non-profit institution, which funds its

operations from membership subscription and donations. (Government of Kenya, 2001).

1.3 Kenya Reinsurance Corporation Limited

The Kenya Reinsurance Corporation Limited (Kenya Re) was established in December 1970 under the State Reinsurance Corporation Act of the Laws of Kenya, Chapter 485. Initially, the Corporation was referred to as the State Reinsurance Corporation of Kenya. The name was later changed to Kenya Reinsurance Corporation under the provision of the 1977 Statute Law (Miscellaneous Amendments) Act. The Corporation's function is to undertake and transact in any manner reinsurance and insurance business in and out of Kenya.

The establishment of Kenya Reinsurance Corporation was necessitated by the Kenya government desire to address the unsatisfactory conditions that were then obtaining in the local insurance sector. The Corporation commenced underwriting business on 1st January 1971 initially underwriting fire risk. During the first year of operation, it netted KShs.5.9 million as premium income and realized an underwriting profit of KShs 328, 818.

On 1st January 1972, the Corporation expanded its business portfolio when it started underwriting accident class of business covering the whole range of risks such as burglary, cash in transit, personal accident and workman's compensation. Between 1973 and 1974, the Corporation commenced underwriting marine and aviation, motor and life classes of business.

On 13th March 1997, Kenya Reinsurance Corporation was registered under the Companies Act (Cap. 486). Its operations are, however,

regulated by the Insurance Act, Chapter 487 of the Laws of Kenya. Currently Kenya Reinsurance Corporation is a fully-fledged re-insurer offering the full range of reinsurance services to insurance companies in Africa, Middle East and Asia.

There have been important developments in Kenya Re business during the last four years. First was the phasing out of compulsory cessions in the year 2000. This has led to a rethink of the marketing strategies and corporate expectations (Government of Kenya, 1995)

The second is the retention of the 18% compulsory treaty cessions to the end of year 2004 (Government of Kenya, 1999). These developments are expected to make Kenya Re one of the companies with the best returns in the insurance industry in Kenya.

Kenya Re faces challenges in the market place. There is increased competition from foreign and local reinsurance companies. There is the evolution of electronic commerce which has exposed the local and regional market to substantial foreign competition. Lastly, is the current economic environment which creates uncertainty in the insurance market. The erosion in the purchasing power of the public and continued weakening of the Kenya Shilling will further depress the demand for insurance and re-insurance products.

1.4 The Statement of The Problem

Reinsurance companies, like all other organizations, are environmental serving (Ansoff, 1984; Ansoff and Sullivan, 1993). They depend on the external environment for their survival. They have to understand requirements of this environment and adapt to them. Failure to do this will give rise to a serious strategic problem characterized by the maladjustment

of the organization's output and the demand of the external environment (Ansoff 1984). For reinsurance companies to remain successful, their strategies have to address the environmental challenges adequately.

Fundamental changes have taken place in the Kenyan business environment. Privatization of some state-owned corporations, liberalization of both domestic and foreign trade and changes in legislation are some of the challenges facing the insurance industry in Kenya. There is also the challenge of huge motor insurance claims many of which are falsified, a problem compounded by high court awards for personal injury motor claims. The Finance Act has limited insurance companies investment options by imposing a mandatory investment in government securities of 20% of an insurance company's funds. Technological evolution has poised product innovation challenges and opened up the Kenyan insurance industry to national and international competition. The Kenyan economy has been under-performing, registering negative growth rates in some years.

One principal outcome of these changes is increased complexity in the business environment. Such dynamic conditions in the environment require firms to respond in order to ensure survival and success.

Several studies have been done on responses of organizations to environmental changes. These include studies by Chune (1998), Abdullahi (2000), Kandie (2001) and Warucu (2001).

These studies established that organizations have to respond to the pressure exerted by the challenges poised by the changing environment. Kenya Re is operating in a changing environment. How has the company responded to the changes in the environment ?

1.5 Objective of the Study

This study has one objective. That objective is to establish the response of Kenya Re to the changes in the environment.

1.6 Importance of the Study

This study will be important to various users. Firstly is to the government in formulating policies on deregulation, liberalization and privatization of state owned corporations and especially so in coming up with the proposed Privatization Act. Secondly is to the reinsurance company managers in identifying forces in the external environment affecting their organizations and possible responses to these forces.

Thirdly, to the scholars, it will be an important addition to knowledge. It is hoped that it will be a reference and will stimulate further research into responses of organizations to external environmental changes. Lastly, it will be a reference for investment decision-making to potential investors when Kenya Re is eventually privatized. This is more so if the privatization will take place through the Nairobi Stock Exchange (NSE).

CHAPTER 2

LITERATURE REVIEW

2.1 The Concept of Strategy

Pearce and Robinson (1997) define strategy as large-scale future oriented plans for interacting with competitive environment to achieve company objectives. It is the companies "game plan". While it does not detail all future development of resources, it provides the framework for managerial decisions. A strategy reflects a company's awareness of how, where and when it should compete and for what purpose it should compete. The main thrust of strategy is to achieve long-term sustainable advantage over the competitors of the organization in every business in which it participates. It recognizes that competitive advantage results from a thorough understanding of the external forces that impact on the organization.

Strategy is the match between an organization's resources and skills and the environmental opportunities it wishes to accomplish (Schendel and Hofer 1979). It is important to provide guidance and direction for the activities of the organization.

Ansoff (1965) views strategy as the "common thread" among organization's activities and products/markets that define the essential nature of the business the organization is in and plans to be in the future. It is a pattern of decisions in a company that determine and reveal its objectives, purposes or goals and produce the principal policies and plans for achieving those goals (Andrew 1987).

Aosa (1998) states that strategy is creating a fit between the external characteristics and internal conditions of an organization to solve a strategic problem. The strategic problem is a mismatch between the internal characteristics of an organization and its external environment. The matching is achieved through development of an organization's core capabilities that correlate to the external environment enough to enable the exploitation of opportunities existing in the external environment. Strategy creates a viable match between the external environment and organizations internal capabilities.

Strategy is a tool which offers significant help in coping with the turbulence confronted by business firms. It merits serious attention as a management tool not only from the firm but also from the broad spectrum of social organizations (Ansoff, 1990).

Porter (1996) states that strategy is creating a fit among a company's activities. The success of a strategy depends on doing many things well – not just a few – and integrating them. If there is no fit among activities, there is no distinctive strategy and little sustainability. The company's activities include its effective interaction with the environment in that these activities are geared to serving the external environment.

Strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through the configuration of its resources within a changing environment to meet the needs of the market and fulfill the stakeholders' expectations. Given that the organization's environment is always changing, to enhance its competitive advantage the organization must reconfigure its resources to match the changes. The changes could be mild or turbulent but must be matched accordingly by appropriate strategy. Failure to do this will result,

according to this definition, in market needs not being met by the organization's activities and resources (Johnson and Scholes, 1999).

The foregoing illustrates a direct interrelationship between an organization and its environment. An organization must configure its resources and strategies to result in the most appropriate response to environmental changes which often tend to be turbulent and discontinuous.

2.2 Strategic Management

Strategic management is concerned with arriving at decisions on what organizations ought to be doing and where they ought to be going (Howe 1993). It is the ongoing process of ensuring a competitively superior fit between the organization and its ever-changing environment (Teece, 1984). Pearce and Robinson (1997) define strategic management as the formulation, implementation, control and evaluation of business strategies to achieve future objectives.

Strategic management involves the planning, directing, organizing and controlling of a company's strategy-related decisions and actions. 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" (Pearce and Robinson, 1997).

Strategic management issues require top management decisions. This is because they require a large amount of the firm's resources and often affect the firm's long-term prosperity. They are future-oriented and have multi-functional and multi-business consequences. They require considering a firm's external environment (Pearce and Robinson, 1997).

Strategic management may be formal or informal. A number of forces determine how much formality is needed. These forces include management style, complexity of the environment and the size of the organization (Pearce & Robinson, 1997).

Hoffman and Hegarty (1989) noted that the emergence of strategic management was out of necessity. Managers have been faced with the need to adapt increasingly complex organizations to rapidly changing environments. Strategic management helps organizations cope with the dynamic environments they face. It's an invaluable tool for any organization to ignore.

Porter (1980) summarized five benefits of strategic management. One is that strategy provides the central purpose and direction (vision, mission and objectives) to the activities of the organization, to the people who work in it and often to the world outside (framework of the organization's actions). The company is able to perform current activities and at the same time view their long-term implications.

Secondly, strategic management enables organizations to adapt under conditions of externally imposed stress or crisis because of changing environment. Organizations can and do often create their environments, besides reacting to it, by focusing on strategic issues.

Thirdly, strategic managements help companies develop sustainable competitive advantage. In developing strategy organization carry out an analysis of internal and external environment and see where they can outperform their competitors.

Fourth, strategic management is important for the management of the organizations boundary interface. This sustains the legitimacy of the

organization and enhances the quality of its relationship with the outside environment (effective/futuristic orientation).

Lastly, strategic management helps organizations to be more focused in their efforts, effectiveness in resource allocation and key success factors. It helps to cultivate a culture of forward thinking and therefore a culture of learning organizations.

Strategic management therefore tries to ensure that opportunities are grasped, risks are acceptable, failure can be contained and success can be building upon and sustained (Hax and Majluf, 1996). These objectives cannot be realized while ignoring the external environment.

However defined strategic management includes all the activities that lead to the definition of the organizational objectives and to the development of programmes, actions and strategies to accomplish these set objectives. It provides the basic direction and framework within which all organizational activities take place.

2.3 The Strategic Management Process

The process of strategic management is defined at both the primary and secondary levels, which are corporate and business levels, respectively. Strategic management involves strategic analysis, strategic choice, strategic implementation and strategic evaluation and control (Johnson and Scholes, 1999).

Strategic analysis is concerned with understanding the strategic position of the organization in terms of its external environment, internal resources and competences, and the expectations and influence of stakeholders (Johnson and Scholes, 1999). At this stage the mission and vision of the

organization are stated and the goals are set and objectives defined. An organization has to be concerned with the degree to which it has to change to achieve truly demanding goals that effectively meet the external environmental characteristics (Johnson and Scholes, 1999), (Hax and Majluf, 1996).

Strategic choice involves understanding the underlying bases guiding future strategy, generating strategic options for evaluation and selecting from among them (Pearce and Robinson, 1997; Johnson and Scholes, 1999). Here an organization is striving to achieve sustainable competitive advantage and therefore chooses a strategy that will help it succeed towards this goal. The choice of strategy is crucial. It could make or break an organization. Its effects are long term and costly to reverse. The choice must also be compatible with stakeholders' expectations. It must also pay attention to the organization's resource capabilities and its environment (Johnson and Scholes, 1999).

Strategy implementation entails translation of strategy into organization's actions through organizational structure and design, resource planning, and the management of strategic change (Johnson and Scholes, 1999). In implementing strategy, the strategist must of necessity effect change in order to accommodate the new strategy, which is based upon the demands of the external environment. Management of strategic change involves recognizing the need for altering the way things are in an organization, planning for the alteration by doing the correct analysis, setting change goals and designing the appropriate actions, moving the organization from the current state to the desired future state, and consolidating and stabilizing changes by changing the structure and process of the organization.

2.4 External Environment and the Organization

The external environments of an organization is all those conditions and forces that affect its strategic options and determines its competitive situation (Porter 1985). He sees this connection as an input-throughput-output process where inputs are received from the environment and released back into the same environment after being processed by the organization. What is released back can only be consumed by the environment if it fits the environmental requirements and needs.

Change is inevitable in the history of any organization. Organizations exist in an environment. They are environment-dependent. They look to the external environment for resource inputs. Once inputs are transformed into outputs (products and services), they are again absorbed by the environment. If the environment of organizations changes significantly, this will create pressure for change within the affected organizations. The organizations have to adapt their internal operations to reflect the new external realities (Ansoff, 1965 ; Porter, 1985)

Organizations that do not adapt (change) to keep pace with the changing environment are likely to suffer and become irrelevant. They will lose their reason for existence. For a number of years now, the external environment of organizations all over the world has been described as turbulent and has been changing constantly and in a discontinuous way. This means organizations have to continuously change to keep pace with this fast changing environment (Porter, 1985).

According to Porter (1980), environments can change (uncertainty of environment), new organizations enter and exit, and the supply of resources becomes more or less scarce. When environments change (become uncertain), organizations face the prospect either of not surviving

or of changing their activities in response to these environments. Therefore, to survive and become effective, an organization must be capable of making adaptations to the changing situations. It is due to these continuous changes that organizations need more powerful management process like strategic management to cope successfully.

(Swiss Re) (Government of Kenya)

Porter (1980) placed the dynamic relationship between enterprise strategy and industry structure at the centre of his concept of 'competitive strategy'. He presented the possibility of 'selecting' a strategy based on a well-defined 'position' in the economic market place backed-up by 'analysis' rather than 'prescription' (Ansoff, 1965; Rumelt, 1974).

Johnson and Scholes (1988), and Graig and Grant (1993) indicated that the strategic analysis process comprises the external analysis such as the industry situation analysis and competitive situation analysis, and internal analysis (company situation analysis). Apart from situational analysis, other authors suggested that strategic thinking and strategic readiness are the other important conditions for strategic management to be carried out effectively.

For a firm to control its growth, change and development it must seek to control the forces which provide the opportunities for growth and change and those which pose threats and demand response. The managers must be aware of the environmental forces and environmental change. They must manage the organization's resources to take advantage of opportunities and counter threats (Thompson, 1997).

2.5 Reinsurance Industry in Kenya

There are two reinsurance companies registered in the Kenya. These are Kenya Reinsurance Corporation Limited (Kenya Re) and East Africa

Company Limited (E.A Re). However there are four other reinsurance companies domiciled in the country. These are Africa Reinsurance Corporation Limited (Africa Re), Preferential Trade Area (PTA) Reinsurance Company Limited (also called ZEP Re), Munich Reinsurance Company Limited (Munich Re) and Swiss Reinsurance Company Limited (Swiss Re) (Government of Kenya).

All the six players underwrite both treaty reinsurance business as well as facultative reinsurances. They all do both short-term and long-term reinsurances. The long-term classes of business reinsured include bond, investment, industrial life, ordinary life and superannuation business. On the other hand the short-term classes of business reinsured are aviation, engineering, fire domestic, fire industrial, liability, marine, motor private, motor commercial, personal accident, theft, workmen's compensation and miscellaneous accident (Government of Kenya).

Presently there are thirty nine (39) direct writing companies. At the direct market level the role of government in terms of ownership ended with the collapse of Kenya National Assurance in 1996. At the direct market level in Kenya the insurance market is pluralistic in nature whereas at the reinsurance level the market is semi-monopolistic with government exercising a limited monopoly restricted to 18% treaty business legal cessions to Kenya Re.

Out of 39 direct writing companies, 22 are composite companies, underwriting both life and non-life business. 15 companies are involved in non-life business only and two underwrite only life assurance business. The non-life sector of business is therefore the most competitive with 37 insurance companies involved in it.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Research Design

The research problem for this study was studied using the case study method. This method resulted in a detailed account of the environmental challenges facing Kenya Re and the responses the company has adopted. A case study is a comprehensive study of a social unit. The social unit maybe a person, a group, a social institution, a district or a community (Young, 1960: 247)

The case study method is a technique by which individual factors, whether an institution or an individual episode, in the life of an individual or a group is analyzed in its relationship to any other in the group (Odum and Catherine, 1929: 229).

A case study is a very powerful form of qualitative analysis and involves a careful and complete observation of a social unit, be that unit be a person, a family, an institution, a cultural group or even the entire community. It is a method of study in depth rather than in breadth (Kotari, 1990)

3.2 Data Collection

Personal interviews with the CEO and departmental heads were conducted. Open-ended questions were used in the questionnaire to avoid subjectivity resulting from limiting the respondents answer options. The CEO was interviewed for the broad overall responses by Kenya Re to environmental changes. The departmental heads are the Chief Underwriter (General Manager, Reinsurance), the Financial Controller, the Corporation

Secretary/Principal Legal Officer/ Head of Human Resource & Administration and the Manager (Property & Corporate Affairs). The departmental heads were interviewed for Kenya Re's responses to changes in the environment as far as their respective functional departments were concerned.

3.3 Data Analysis

Content analysis was used to analyze data collected. This is the systematic qualitative description of the composition of the objects or materials of study. It involves observation and detailed description of objects, items or things that comprise the study (Mugenda, 1999).

CHAPTER 4

DATA ANALYSIS

4.1 The Organization

Kenya Re is a state owned corporation. It is 100% owned by the Government of Kenya.

4.1.1 Developments at Kenya Re

According to the respondents there have been four very important developments in Kenya Re business during the last four years. The first development in Kenya Re's business has been the phasing out of compulsory cessions in the year 2000. This has led to a rethink of the marketing strategies and corporate expectations. In fact, this is one of the reasons for the positive returns Kenya Re has started to experience. The second is the retention of the 18% treaty cessions to the year 2004.

Third, the Corporation had to carry out a thorough reorganization of its structure to enable it face future challenges. The fourth has been the positive dynamic change in management styles and thinking. These developments are expected to make Kenya Re one of the companies with the best returns in the insurance industry in Kenya.

The respondents admitted that the company has responded to the changes in the business environment in Kenya. According to the managing director the gross premium written by Kenya Re has declined from Kshs2.6 billion in 1997, to Kshs1.7 billion in 2002, a drop of 35% during this period. This translates into a reduction in gross premium written by an average of 7% per annum. The main

reasons for the reduction in gross premium written is the phasing out of the mandatory policy cessions between 1995 and 1999. Business from this source ceased in the year 2000. However, contribution from inward treaties rose from 27.4% in 1997 to 80.4% in 2002. International business contribution has been on an upward trend from 2.1% of the total gross written premium in 1997 to 16.5% in 2002.

The managing director felt that these gains have been made possible by extensive marketing efforts in the COMESA region and efforts to ensure that the company responds well to the environment. He said that given that all legal cessions will cease in year 2004, marketing will have to assume a more important role in Kenya Re's overall strategy if the organization is to survive and grow. In general, Kenya Re will become a proactive market player; an organization that goes out to actively acquire business and puts in place actions that help it retain business by keeping its customers satisfied and loyal through more frequent customer follow-ups and contacts. The organizational culture will be one that "puts the customer first" and believes that 'marketing is everybody's business'. There will be more personal involvement in marketing by all high-level Kenya Re professionals.

He pointed out that Kenya Re has implemented the four key strategies in the last 10 years. One is intensified marketing activities locally and internationally through market penetration, market development and product development. Second, is increased level of customer service. Third, is emphasis on personal selling in Kenya Re's marketing communication strategy. Fourth, is a competition oriented pricing strategy in all markets.

The respondents gave the gross written premiums written by Kenya Re from 1997 to 2002 is as detailed in Table 1 below. The premiums have been given by the major lines of business transacted by the company.

Table 1 : Kenya Re Business Written by Source

	1997 KShs 000	1998 KShs 000	1999 KShs 000	2000 KShs 000	2001 KShs 000	2002 KShs 000
Compulsory Policy Cessions	1,835,907	1,684,184	989,669	492,491	-	-
Facultative	6,639	53,925	1,243	44,644	32,606	48,265
Inward Treaties	713,409	900,461	698,675	1,214,191	1,262,492	1,373,318
Sub total	2,555,955	2,638,570	1,689,587	1,751,276	1,295,098	1,421,583
Increase (Decrease) in Listed Risks	(21,683)	(55,204)	(20,407)	(34,536)	(1,179)	-
Direct Insurance/ Mortgages	8,150	9,919	5,829	4,586	4,193	4,112
Bonds	-	-	25	-	-	-
Sub total	2,542,422	2,593,285	1,675,034	1,721,326	1,298,111	1,425,695
International Business	55,177	133,969	278,133	244,415	166,335	282,337
Total Premium Income	2,597,599	2,727,254	1,953,167	1,965,741	1,464,447	1,708,033

Source: interviews

The respondents pointed out that from 1995 the law was changed to reduce the compulsory policy cessions to Kenya Re by 5% per year from 1995 to 1999 (Legal notice No.372 – 1995). They said that this systematically reduced the 25% compulsory policy cessions to Kenya Re to 0% in year 2000. This explains the steady reduction of Compulsory policy cessions premium from KShs1,835,907,000 in 1997 to nil by 2002.

The response was to increase marketing effort in Kenya and internationally. This saw inward local (Kenyan) treaty premiums growing from KShs713,409,000 in 1997 to KShs1,373,318,000 in 2002. The inward facultative account also grew from KShs6,639,907,000 in 1997 to KShs48,265,000 in 2002. Similar growth happened in respect of the inward international treaty business which increased to KShs282,337,000 in 2002 from KShs55,177,000 obtaining in 1997.

The percentage contribution of each main line of business to the total gross written premiums of the company from 1997 to 2002 is as depicted in Table 2 below according to the respondents.

Table 2 : Kenya Re Business Written by Source (%)

	1997 KShs000	1998 KShs000	1999 KShs000	2000 KShs000	2001 KShs000	2002 KShs000
Compulsory Policy Cessions	70.68%	61.75%	50.67%	25.1%	0.0%	0.0%
Facultative	0.26%	1.98%	0.06%	2.27%	2.22%	2.82%
Inward Treaties	27.46%	33.02%	35.77%	61.76%	86.2%	80.4%
Increase/(Decrease) in Listed Risks	-0.83%	-2.02%	-1.04%	-1.76%	0.0%	0.0%
Direct Insurance/Mortgages	0.31%	0.36%	0.30%	0.23%	0.28%	0.24%
Bonds	0.00%	0.00%	0.00%	0.00%	0.0%	0.0%
International Business	2.12%	4.91%	14.24%	12.4%	11.35%	16.52%

Source: interviews

It evident from the table that the contribution of compulsory cessions to gross written premiums decreased from 70.68% in 1997 to nil in 2002. That of the facultative inward grew from 0.26% to 2.82% between the same years. For the same period the growth in respect of inward local treaties was from 27.46% to 80.4%. Between the same years international inward treaties grew from 2.12% to 16.52%.

The respondents felt that these growth rates were the direct result of focused deliberate marketing effort. They explained that this was caused by the changed environment of removal of compulsory policy cessions to the company. Compulsory treaty cessions were also reduced from 25% to 18%. They are scheduled to be reduced to 0% in year 2004. Kenya Re responded to these change by intensifying its market outreach effort.

4.1.2 Reinsurance Products

The respondents indicated that there are six reinsurance products (classes) transacted by Kenya Re. These are fire, accident, marine, aviation, motor and life reinsurance business. The premium written in each of these products in the years 1997 – 2002, is presented in Table 3. Detailed breakdowns are provided in Tables 4 to Table 7.

Table 3 : Premiums Written per Class of Business - Kshs. Millions

	1997 KShs.	1998 KShs.	1999 KShs.	2000 KShs.	2001 KShs.	2002 KShs.
FIRE	657	650	411	440	371	456
ACCIDENT	746	711	469	623	460	482
MARINE	147	198	77	63	68	88
AVIATION	5	40	0	0	4	4
MOTOR	857	785	490	282	145	156
LIFE	131	210	228	313	251	239
INTERNATIONAL BUSINESS	55	134	278	244	165	283
TOTAL	2,598	2,728	1,953	1,965	1,464	1,708

Source: interviews

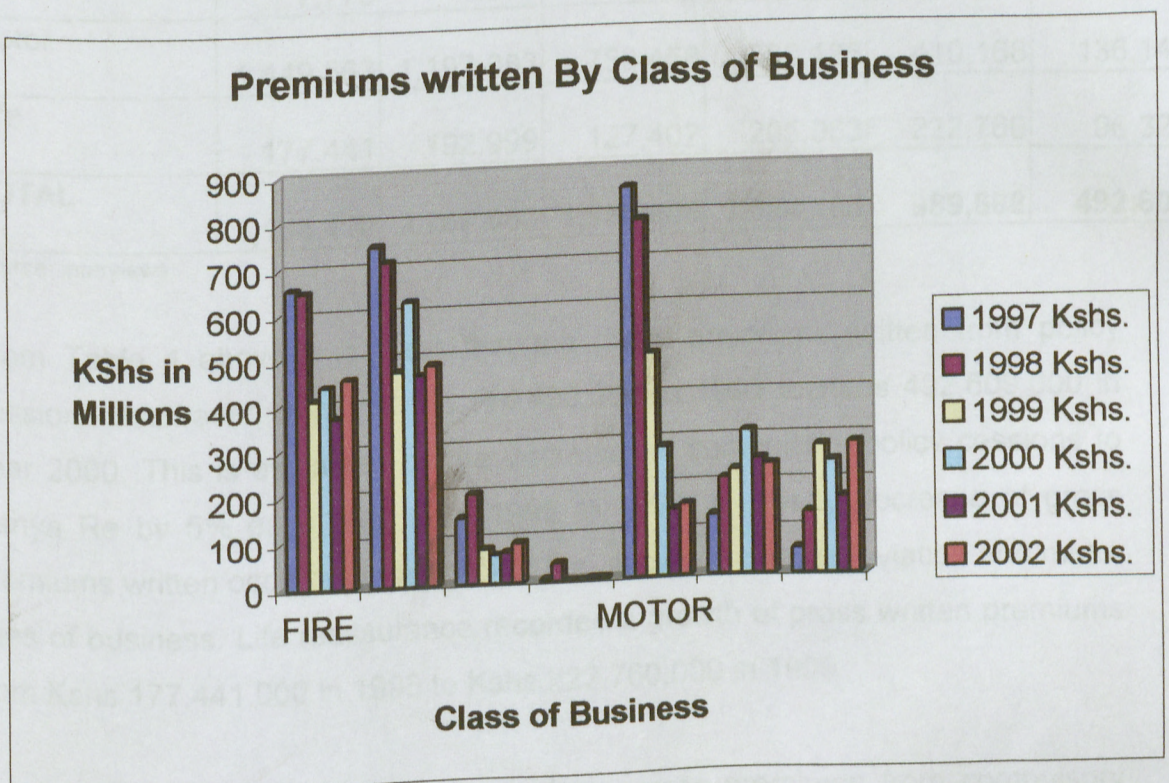
As shown in table 3 above there was a steady decrease of the gross treaty written premiums from KShs2,598,000,000 in 1997 to KShs1,708,000,000 in 2002. Competition was intense in the market. Kenya re suffered a decline in written premiums on all lines of business except life reinsurance where growth was steady over these years other than for the decrease from KShs313,000,000 in 2000 to KShs251,000,000 in the following year.

International inward business grew from KShs55 million in 1997 to KShs278 million in 1999 but declined to KShs244 million in year 2000 and further declined to KShs165 million in year 2001. In year 2002 it grew to KShs283 million.

We also see that motor premiums particularly declined from a high of KShs857,000,000 in 1997 to KShs145,000,000 in 2001. A marginal increase to KShs156,000,000 was recorded in 2002. This is indicative of the challenges facing motor insurance underwriting in Kenya. These include intense competition, thin and uneconomical premiums rates resulting from competition, fraudulent claims and high court awards among others.

The premiums written per class of business are depicted diagrammatically by the bar charts in Figure 1 below.

Figure 1



Source: interviews

The respondents indicated the position of gross written premiums in respect of compulsory policy sessions is as in Table 4 below.

Table 4: Compulsory Policy Cessions by Class

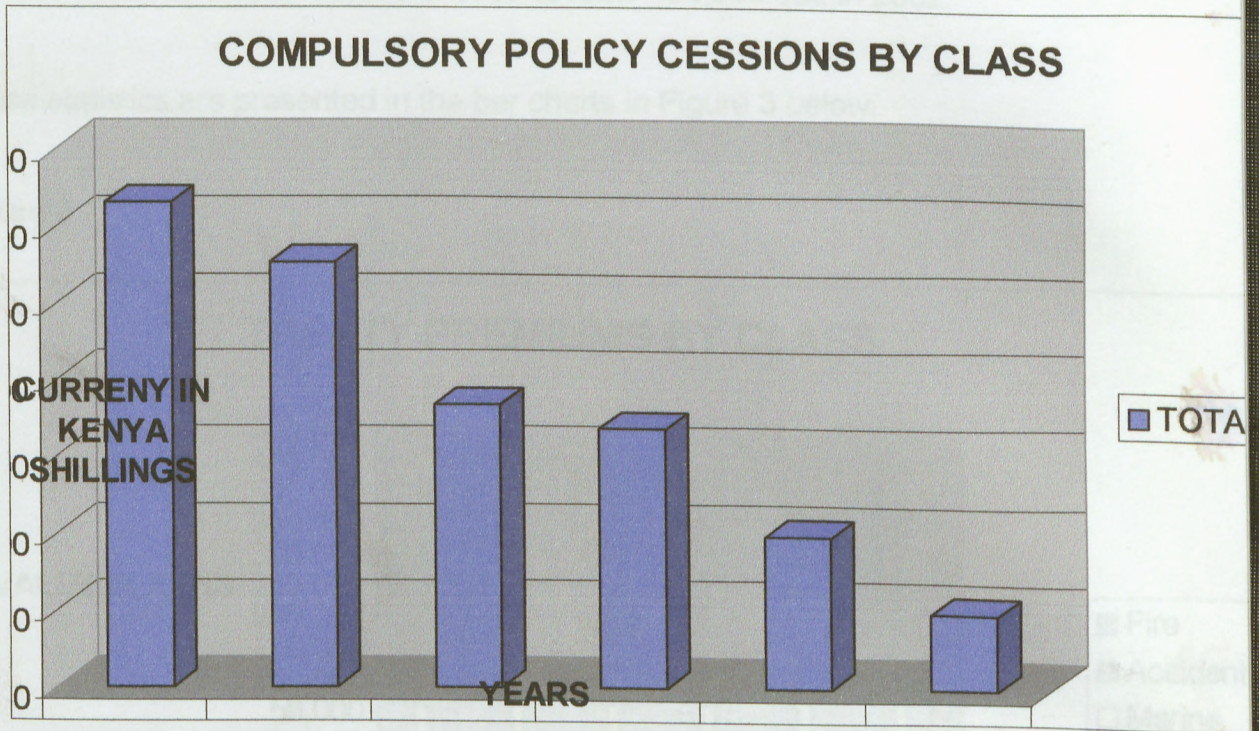
Gross Premium Income	1995	1996	1997	1998	1999	2000
	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000	KShs.'000
Fire	533,215	491,285	345,692	295,417	108,326	64,739
Accident	831,892	732,333	508,107	401,595	228,332	195,407
Marine	154,606	152,710	90,277	77,836	19,986	-
Aviation	7,773	1,278	4,972	2,157	96	-
Motor	1,449,563	1,197,083	759,458	702,125	410,168	136,141
Life	177,441	192,999	127,402	205,053	222,760	96,322
TOTAL	3,154,490	2,767,688	1,835,908	1,684,183	989,668	492,609

Source: interviews

From Table 4 above it is clear that the gross premiums written from policy cessions decreased from Kshs 3,154,490,000 in 1995 to Kshs 492,609,000 in year 2000. This is explained by the decrease of compulsory policy cessions to Kenya Re by 5% each year from 1995 to 1999. A steady decrease of gross premiums written occurred in respect of fire, accident, marine, aviation and motor lines of business. Life reinsurance recorded a growth of gross written premiums from Kshs 177,441,000 in 1995 to Kshs 222,760,000 in 1999.

The general steady trend of decline of the gross premiums from compulsory policy cessions is clearly visible from the histogram in Figure 2 below.

Figure 2



They gave the treaty gross premiums written by class of business over the years is as in Table 5 below.

Table 5 : Treaty Premiums by Class

	1997 KShs.'000	1998 KShs.'000	1999 KShs. '000	2000 KShs.'000	2001 KShs.'000	2002 KShs.'000
Fire	339,084	365,467	307,699	379,325	351,348	425,167
Accident	222,758	339,437	254,130	415,649	452,473	466,385
Marine	56,185	115,296	56,944	58,472	65,315	85,532
Aviation	-	-	-	35	4,206	3,822
Motor	95,383	80,261	79,902	145,973	145,286	156,359
Life	-	-	-	214,687	243,864	236,053
Total	713,409	900,461	698,675	1,214,141	1,262,492	1,373,318

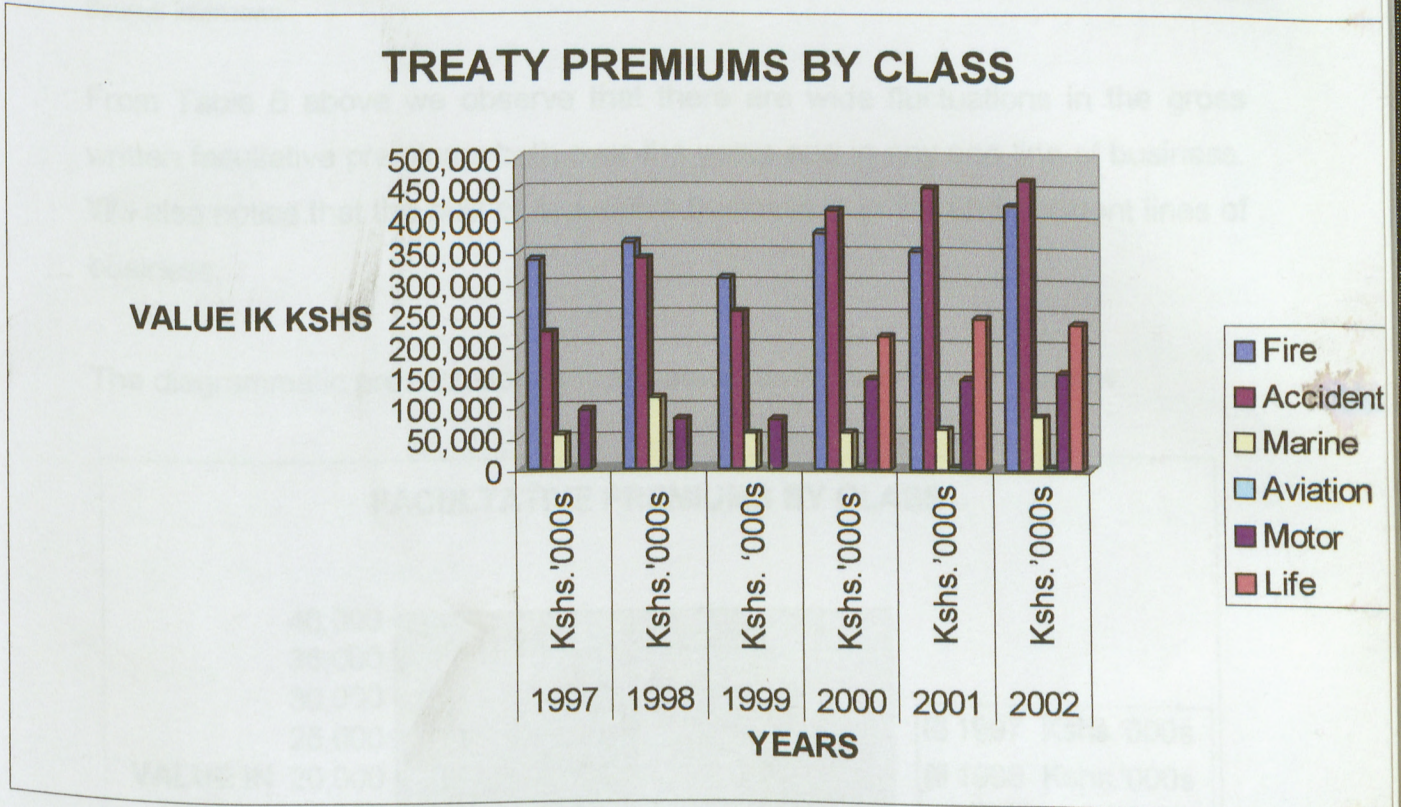
Source: interviews

There clearly were fluctuations in the trend of growth of the various lines of business but on the overall gross treaty premiums grew from Kshs 713,409,000

in 1997 to Kshs 1,373,318,000 in 2002. Accident class recorded the highest increase from Kshs 222,758,000 in 1997 to Kshs 466,385,000 in 2002.

These statistics are presented in the bar charts in Figure 3 below.

Figure 3



The position in respect of inward gross facultative premiums per class of business is as in Table 6 below according to the respondents.

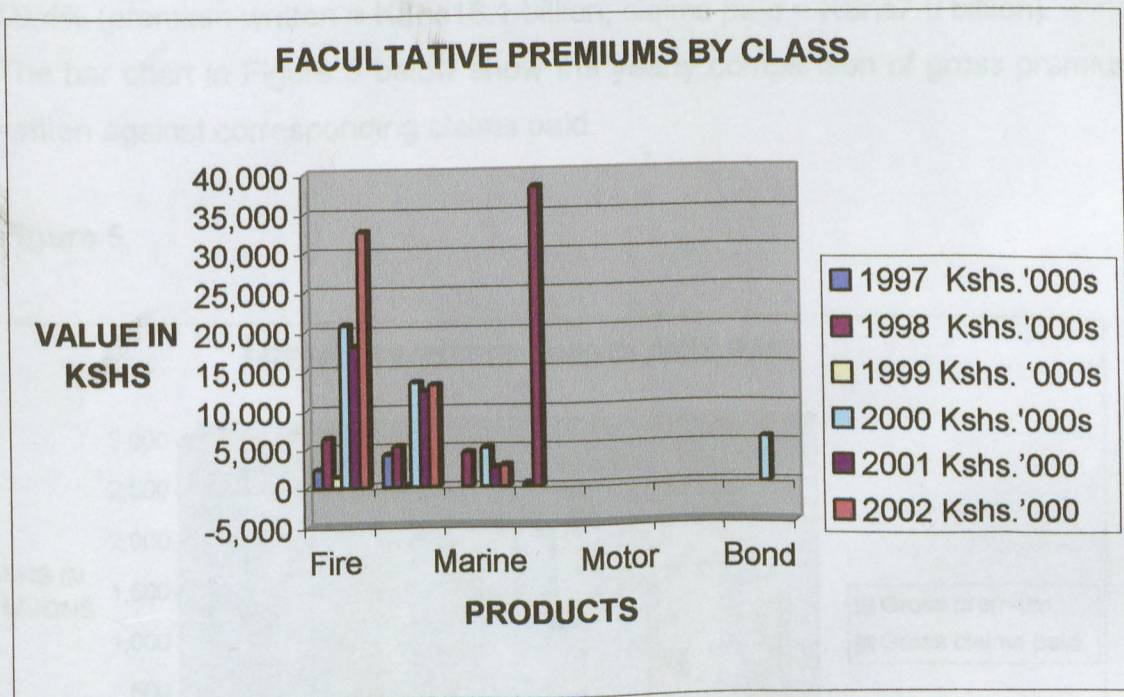
Table 6 : Facultative Premiums By Class

	1997 KShs.'000	1998 KShs.'000	1999 KShs. '000	2000 KShs.'000	2001 KShs.'000	2002 KShs.'000
Fire	2,271	6,339	1,267	20,783	17,977	32,593
Accident	4,080	5,168	(23)	13,368	12,241	13,030
Marine	-	4,322	-	4,884	2,387	2,642
Aviation	289	38,096	-	-	-	-
Total	6,639	53,925	1,243	44,644	32,606	48,265

Source: interviews

From Table 6 above we observe that there are wide fluctuations in the gross written facultative premiums both over the years and in any one line of business. We also notice that the bulk of facultative business is in fire and accident lines of business.

The diagrammatic presentation of these statistics is as in Figure 4 below.

**Figure 4**

The respondents indicated that against these premiums written the gross corresponding claims figures were as in Table 7 below.

Table 7 : Premium Written and Claims Paid - Kshs. Millions

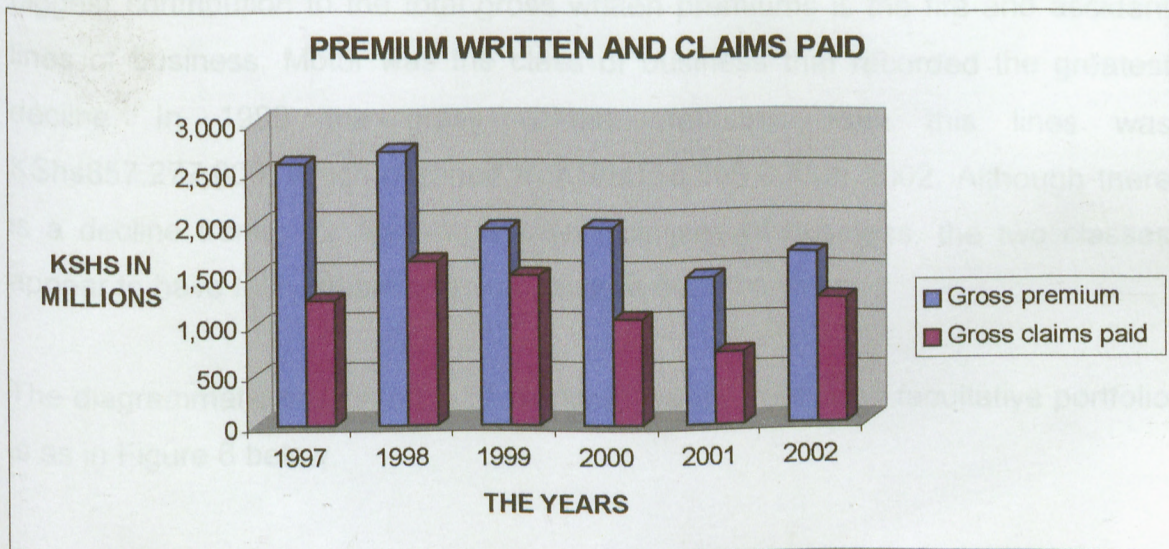
	1997	1998	1999	2000	2001	2002
Gross premium	2,598	2,728	1,953	1,965	1,464	1,708
Gross claims paid	1,249	1,636	1,486	1,054	712	1,261
Loss ratio (%)	48.1%	60.0%	76.1%	53.6%	48.6%	73.8%

Source: Interviews

They explained that the increase in loss ratio from 48.1% in 1997 to 73.8% in 2002 is due to challenges in the marketplace. Principal among them being fraudulent claims, high court awards and inadequate premiums being charged due to premium rate undercutting. They indicated that Kenya Re's 2002 loss ratio compares unfavourably with the industry loss ratio for the same year which was 59.4% (premium written = KShs16.1 billion; claims paid = KShs7.0 billion).

The bar chart in Figure 5 below show the yearly comparison of gross premiums written against corresponding claims paid.

Figure 5



4.1.3 Reinsurance Market - Local Business

In considering the adequacy of the company's strategic responses to competition the respondents felt that Kenya Re has had extensive reliance on local business for the last 30 years.

Table 8 shows the combined gross written premiums for local inward treaties and facultative upto the year 2002.

	1997	1998	1999	2000	2001	2002
	KShs000	KShs000s	KShs000	KShs000	KShs000	KShs000
Fire	656,905	650,155	410,874	439,605	71,045	456,354
Accident	745,689	710,659	469,418	622,642	459,959	482,057
Marine	146,750	197,455	76,930	63,355	67,702	88,174
Aviation	4,972	40,254	96	36	4,206	3,821
Motor	857,277	785,189	490,052	282,165	145,286	156,359
TOTAL	2,411,593	2,383,712	1,447,370	1,407,803	1,048,198	1,186,765

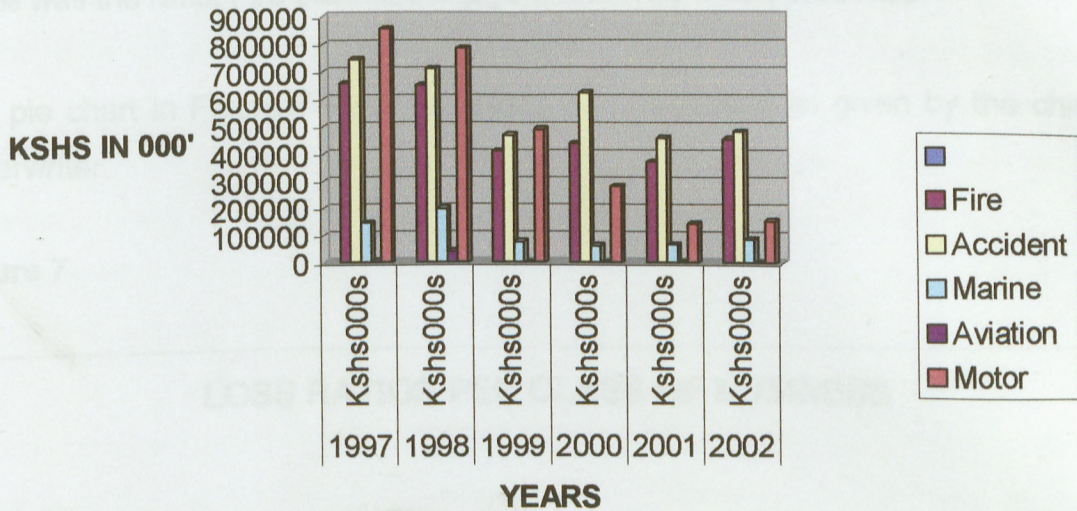
Source: Interviews

Evidently from the table there has been a general decline in the combined gross written premiums for the inward local treaties and facultative business. The biggest contribution to the total gross written premiums is the fire and accident lines of business. Motor was the class of business that recorded the greatest decline. In 1999 the gross written premiums from this lines was KShs857,277,000, which declined to KShs156,359,000 in 2002. Although there is a decline trends for fire and accident classes of business, the two classes appear to have fairly stable premium income over the years.

The diagrammatic presentation of the local inward treaty and facultative portfolio is as in Figure 6 below.

Figure 6

KENYA RE LOCAL AND INWARD FACULTIVES



The Chief underwriter indicated the loss ratio in respect of local inward reinsurance business per class as appearing in Table 9 below.

Table 9 : Loss Ratios Per Class of Business

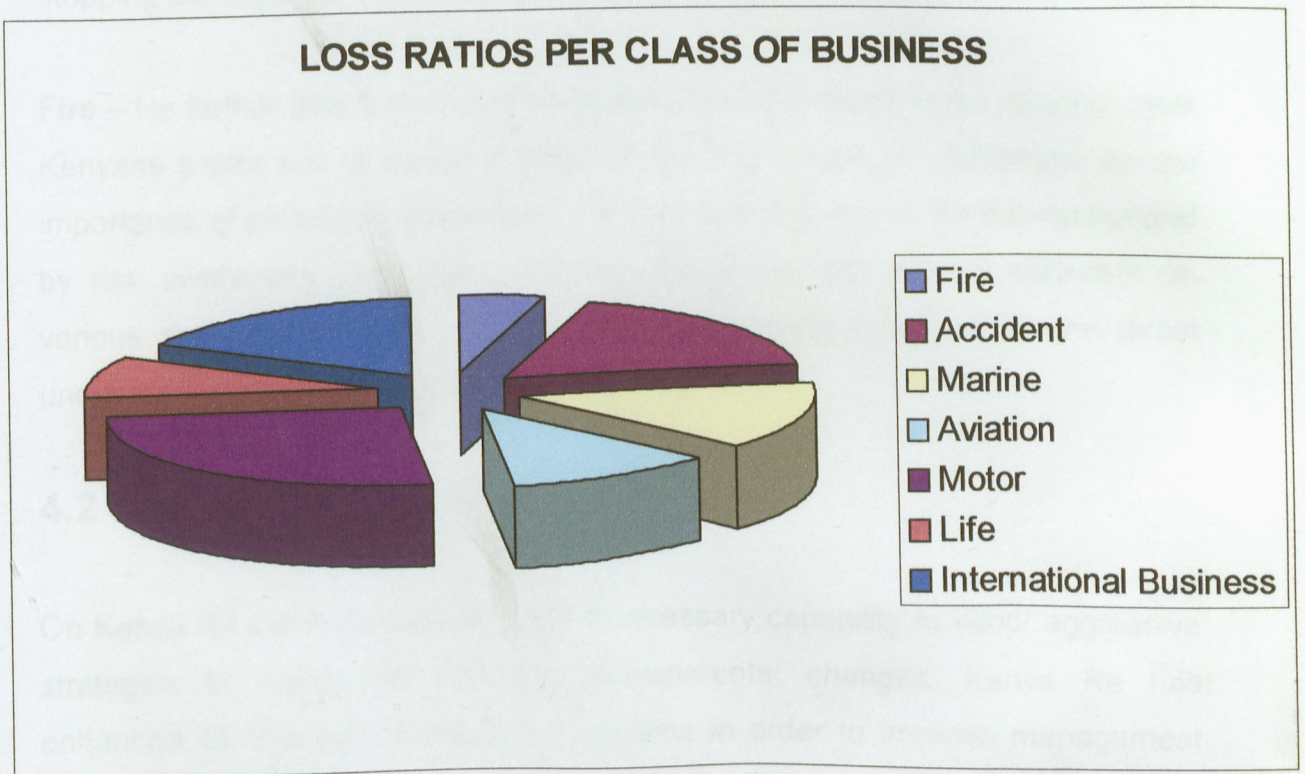
	1995	1996	1997	1998	1999	2000
Fire	15%	30%	57%	60%	52%	11%
Accident	56%	65%	36%	94%	112%	83%
Marine	44%	49%	47%	50%	58%	66%
Aviation	36%	29%	13%	6%	2558%	28,281%
Motor	83%	86%	148%	45%	38%	42%
Life	27%	30%	37%	49%	55%	83%
International Business	51%	32%	43%	66%	21%	41%
Average Loss Ratio	55%	61%	79%	63%	59%	56.3%

Source: Interviews

He revealed that the average loss ratio fluctuated from year to year. The lowest ratio was 55% in 1995 while the highest was in 1997 when 79% obtained. Motor business exhibits the highest loss ratios. 1997 was a particularly bad year when 148% was the ratio. Fire business enjoys a relatively stable loss ratio.

The pie chart in Figure 7 below indicates the loss ratios as given by the chief underwriter.

Figure 7



Evidently the highest loss ratio is in motor insurance class of business. The loss ratio in respect of life assurance business exhibit a worrying trend. It consistently increases from 27% in 1995 to 83% in 2000. The respondents attributed this worsening trend to increased mortality rate mainly out of HIV/AIDS related causes of death.

Marine and Aviation – The chief underwriter indicated that though there is potential in these products, the laws regarding insurance of these risks are flouted. This constitutes another challenge in the business environment. At the moment 70% of marine and aviation is directly insured in overseas markets. This is lost reinsurance business opportunity to reinsurers in the Kenyan market, Kenya Re included. All this notwithstanding the fact that according to the Kenyan Insurance Act insurance business shall be placed in the open markets without express authority from the Commissioner of Insurance. Kenya Re has responded by canvassing to have the Commissioner enforce the Insurance Act thus stopping the export of marine and aviation reinsurance business.

Fire – He further said that due to the related low GDP levels in our country, most Kenyans prefer not to insure in spite of the high levels of awareness on the importance of protection against fire. He indicated that Kenya Re has responded by risk awareness campaigns. The company conducts market seminars on various insurance topics. It also supports awareness initiatives by the direct underwriting insurance companies.

4.2 Financial Performance

On Kenya Re currently possessing the necessary capability to adopt aggressive strategies to match the external environmental changes, Kenya Re has enhanced its financial management systems in order to improve management information, safeguard the financial assets, and maximize returns to the shareholders according to the financial controller.

4.2.1 Capitalization

He indicated that the retention levels of the Corporation will require to be enhanced. The share capital has been increased to KShs1, 000,000,000 from Kshs.500, 000,000. Management requested the Board to authorize for a

capitalization of reserves of Kshs.500, 000,000 for this purpose in the year 2002.

4.2.3 Investments

The financial controller said that the investments form an integral part of the corporation's source of revenue. And that the investment income has however continued to decline from 1996 to 1999 due to reduced cash available for investing resulting from the phasing out of compulsory cessions, investment in projects with nil returns over considerable periods of time, reduction in interest rates on government securities, and concentration of investment in property in a depressed real estate market.

The corporation's investments comprise treasury bills and bonds, rental properties and land mortgages and loans, shares, deposits in Banks and Financial Institutions.

As at 31st December 2002 (book value), the Corporation's investments were distributed as follows:

	2001 KShs	2002 KShs
Government of Kenya Securities	1,063,495,576	1,151,345,102
State Corporations Securities	136,291,445	136,791,445
Quoted Shares	370,856,837	524,026,793
Unquoted Ordinary Shares	12,157,667	13,649,143
Mortgage Loans	248,525,002	152,784,225
Fixed Deposits	177,312,400	157,580,561
Rental Properties and Land	4,205,991,473	4,205,991,473
TOTAL	6,214,630,400	6,342,168,742

Source: Interviews

As seen in Table 9 there was an increase in Kenya Re's investment from KShs6,214,630,400 to 6,342,168,742 between 2001 and 2002. The heaviest single investment is in rental properties and land. Substantial investment has been done in government securities. The company apparently doesn't invest much in unquoted shares.

4.2.4 Treasury Bills and Bonds

He said that the Corporation investments in government securities since 31 December 1995. Investment income is stated after direct expenses. Management expenses are apportioned to the various investment income sources.

On What else should Kenya Re do to stay competitive, The Insurance Act requires that 20% of long term and 10% of general insurance business admitted assets be invested in government securities. Management expects to ensure that Kenya Re is in compliance at all times. He revealed that an Investments Committee has been established to ensure efficient investment operations. The performance of investment in treasury bills since 1995 is as shown in Table 11 below.

From the table we see the expected relationship that the higher the investment in treasury bills the higher the interest amount earned. The highest earnings were realized in 1996 where an investment in the bills of Kshs 2,079,774,066 earned an interest amount of Kshs 429,325,596.

The respondent stated that investment in treasury bills is becoming increasingly unattractive more so in year 2003. There has been a steady and rapid decrease in interest rates applicable to government securities. They quoted the late months of year 2003 where the interest rates were below 1%. As the researcher writes this report the interest rate stands at 0.7%. The respondents pointed out that Kenya re has changed investment strategy to invest more in quoted

securities of blue chip companies. Table 11 below shows the amounts invested by the company in treasury bills and the interest earned.

Table 11 : Treasury Bills/Bonds						
YEAR		PRINCIPAL		INTEREST		% RANGE OF RETURNS
		KSHS		KSHS		KSHS
1995		1,805,213,670		273,172,492		20 – 24
1996		2,079,774,066		429,325,596		21 – 24
1997		1,807,984,856		412,512,971		19 – 26
1998		1,511,266,339		400,075,224		10 – 26
1999		1,019,060,835		155,250,172		10 – 19
2000		1,044,013,355		147,097,922		10 – 19
2001		1,063,495,574		138,646,345		10 - 19
2002		1,151,345,101		123,310,413		10 -19

Source: Interviews

4.3 Challenges Facing Kenya Re And Responses To Them

The respondents identified the key challenges facing Kenya Re in the changing business environment

- Over staffing
- Technology change
- Current economic Environment
- Bureaucratic processes and procedures
- Increased competition from foreign and local reinsurance institutions.

4.3.1 Overstaffing And Staff Turnover

The head of Human resource stated that Kenya Re has over the years witnessed a steep increase in staffing levels. Starting with seven employees at its inception in 1971, the total staff compliment stood at 560 in 1993. To rationalize staffing with a view to cutting down management expenses, the Corporation in 1994 commissioned the Directorate of Personnel Management to carry out a staff audit and recommend appropriate staffing levels.

She revealed that the audit established that the Corporation was over-established by 200 employees especially at the lower cadres. To shed off excess staff, the Corporation designed a Voluntary Early Retirement Scheme which enabled close to 200 members of staff to retire in 1995. The retrenchment exercise was closely followed by a re-organization of Corporation operational units. This entailed redefining functions. She informed of a further retrenchment of 189 employees carried out in 1999 and another one of 35 employees in 2001. The Corporation's establishment currently stands at 101 (employees).

The projected staff turnover to the year 2007 is as given in Table 12 below.

Table 12 : Staff Establishment and Turnover for 6 Years

MODE OF EXIT	2002	2003	2004	2005	2006	2007
Resignation	0	0	0	0	0	0
Death In Service	0	0	0	0	0	0
Dismissal	0	0	0	0	0	0
Normal Retirement	1	1	0	0	0	1
Voluntary Retirement	0	0	0	0	0	0
New Employees	0	0	0	0	0	0
Total Establishment	102	101	100	100	100	99

Source: Interviews

Employee Productivity

The respondents indicated the employee premium per capita as shown in Table 13 below. They contended it indicates low productivity of employees. The 1999 retrenchment improved employee productivity substantially.

Table 13 : Premium Per Capita

YEAR	PREMIUM WRITTEN	NET PROFIT (LOSS)	NO. OF EMPLOYEES	PREMIUM PER CAPITA	PROFIT/ (LOSS) PER CAPITA
	Kshs.	Kshs.		Kshs.	Kshs.
1995	3,937,703,023	116,181,571	332	11,860,551	349,944
1996	3,544,089,444	172,960,465	336	10,547,885	514,763
1997	2,597,599,193	79,512,753	339	7,662,534	234,551
1998	2,727,252,326	78,341,162	336	8,116,822	233,158
1999	1,953,117,110	(224,625,531)	144	13,563,313	(1,559,900)
2000	1,965,777,741	138,573,476	140	14,041,240	989,911
2001	1,464,447,002	289,940,093	140	10,460,338	2,071,001
2002	1,708,033,026	251,663,312	101	6,745,422	2,467,287

Source: Interviews

Employees Profiles

The respondents felt that Kenya Re has a good mix of employees in terms of sex, professional and academic qualifications and experience. They argued that in terms of professional qualifications Kenya Re has probably one of the best management cadres in Kenya today. They contended that what is required is to create a team spirit among this group of managers to produce the desired synergetic effect.

They gave a comparative premium per capita with other reinsurance companies in the world for 1998 as shown in table 14 below.

	Number of Employees	Per Capita Premiums
		Kshs millions
Kenya Reinsurance	140	13.56
Africa Reinsurance Regional Office	20	81
Cologne Reinsurance	1123	158
Union Reinsurance	246	230
East Africa Reinsurance	15	10.4

Source: Interviews

According to Table 14 above, and going by Europeans standards, Kenya Re has much lower per capita premium income than Cologne and Union reinsurance companies. It is also lower than that of Africa Reinsurance Corporation. However it has a higher employee per capita premium than East Africa Reinsurance company limited.

The head of Human Resource gave the age structure of the company as indicated in Table 15 below.

Table 15 Age Structure

Age Bracket	Number of Staff
25----- 30	1
31----- 35	12
36 ----- 40	39
41----- 45	37
46----- 50	10
51----- 54	2
Total	101

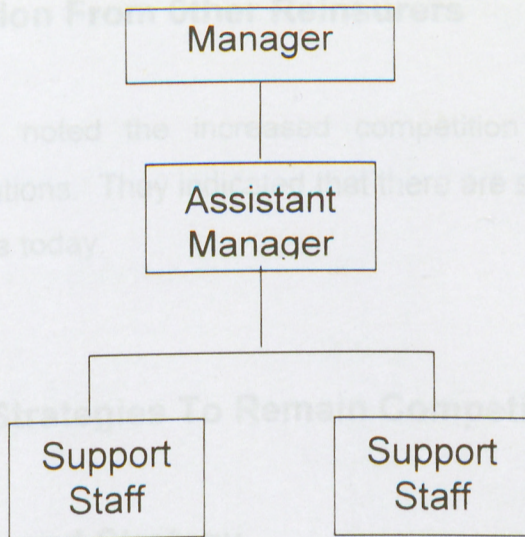
Source: Interviews

From Table 15 above it is evident that the company has an aging staff. Only 26 staff members are below the age of 36 years. There would appear to be need to recruit younger people into their staff. The respondents revealed that they recruited management trainees lastly in 1990.

4.3.3 Bureaucratic Processes

The respondents felt that since the company is 100% owned by the government it is liable to full government control which would sometimes interfere with key management decisions. Key decisions have to be vetted and approved by the government. This processes and procedures cannot work well in the private sector if the company is to compete for customers. The respondents felt that there should be complete change in this area so that the company can have autonomy.

The respondents indicated that in-house the layers of supervisory staff will be reduced to retain the structure shown below.



This should in essence reduce staff at supervisory level to 20.

4.3.4 Technology Change

The respondents stated that evolution of electronic commerce has also exposed the local and regional market to substantial foreign competition. The changing environment has forced the company to retrain the staff to cope up with the changing technology. The company has to maintain its websites for trade. The fact that the technology is expensive makes it very hard for the company to fulfill its objectives.

4.3.5 Current Economic Environment

The respondents held that the current economic environment creates uncertainty in the insurance market. They pointed out the erosion in the purchasing power of the public and the continued weakening of the Kenya shilling which will further depress the demand for insurance and re-insurance products.

4.3.6 Competition From Other Reinsurers

The respondents noted the increased competition from foreign and local reinsurance institutions. They indicated that there are six reinsurance companies operating in Kenya today.

4.4 Kenya Re Strategies To Remain Competitive

4.4.1. Planning and Strategy

The respondents stated the company has plans, objectives, vision and mission to run the organization. The vision is to be a world-class reinsurer and market leader in Africa offering quality reinsurance and ancillary services. The corporate mission of Kenya-Re. The mission is to provide quality reinsurance and related services to clients in Kenya, the rest of Africa, Middle East and Asia. They respondents said the company intends to achieve the mission by being customer - focused and committed to growth, profitability and satisfactory returns to shareholders through professionalism and use of modern technology. And continuing to attract, develop and retain a pool of qualified and experienced staff so as to maintain a competitive edge. And endeavoring to be socially responsible and environmentally conscious by observing high ethical standards in all business practices.

The respondents revealed that management of Kenya Re pledges that all organizational activities and decisions will be based on and guided by the company's values. These are commitment to professionalism, customer satisfaction, quality service, development of human resource, social responsibility, concern for environment and integrity.

4.4.2 Objectives and Strategies towards Major Competitors

The respondents gave the objectives and strategies against the major competitors as summarized in table 16 below: -

Table 16 : Strategies

Objective	Strategy
1. Market Share maximisation	<ul style="list-style-type: none">- Use of brokers network- Marketing in all African Regions- Markets Development- Market Conferences/Training- Advertising
2. Build-up Technical Capacity	<ul style="list-style-type: none">- Manpower external training- Professional examinations sponsorship- On the job training- Poaching
3. Enhance Underwriting Capacity	<ul style="list-style-type: none">- Increase paid capital- Appropriate retrocession programme
4. Profit Maximisation	<ul style="list-style-type: none">- Prudent Underwriting- Cost Control.

Source: Interviews

4.4.3 Innovativeness

For the most part, according to the respondents, one reinsurer's products are scarcely distinguishable from another's and new products are easily copied. In this respect few products are unique and substitutes are widely available.

In marketing terms therefore, it is difficult for insurance companies to rely on the nature of their produce only as a source of competitive advantage. Branding has not been attempted with any great success. Some progressive reinsurance companies have to a certain extent attempted to counter this problem in recent years with large-scale advertising campaigns attempting to establish some kind of corporate identity, or brand image, in the mind of the consumer.

4.4.4 Bargaining Power of Suppliers

The respondents were of the view that the presence of powerful intermediaries has had a severe impact on the reinsurers' margins in recent years. In the commercial lines, the significant influence of the large brokers allows them to insist on conditions, in terms of both rates and breadth of cover, that reduce the margins of reinsurers to such a level as to question the products' very viability.

They said that to combat the growing power of the large intermediaries Kenya Re has tried to develop alternative distribution channels through direct marketing and strengthening and building more effective relationship with small and medium size brokers.

4.5.5 Strategic Alliances

The respondents stated that in 1995 and 1999 there were attempts to privatize Kenya Re. Both attempts failed. There is still expectation that Kenya Re will be privatized in future. One route that will be considered will be to form a strategic alliance with a partner who can bring in technical expertise, capital and market share.

4.5 Marketing

According to the respondents deliberate focus on the marketing function has been one response by Kenya Re to a changes in the business environment in Kenya. Marketing has historically not been an important function at Kenya Re. This is understandable given the legal cessions regime that was in place from day one of Kenya Re's operations. Insurance companies had to take business to Kenya Re. The organization did not have to knock at insurance companies doors seeking business. Kenya Re's marketing orientation has therefore been slow in its evolution.

Marketing, locally and internationally, at Kenya Re is currently being undertaken at the managing director and departmental heads levels and at the Marketing and Business Development Unit level.

4.5.1 Rental Properties and Land

The respondents pointed out that Kenya Re has rental properties. The marketing of these is done by the property and corporate affairs department. There are three office blocks in Nairobi and another in Mombasa and Kisumu. There are also two residential flats in two different housing estates in Nairobi. Other residential housing estates have been developed for sale in Meru, Eldoret, Kisumu and Mombasa. There are also undeveloped pieces of land held for future development or speculative sale.

Office Block and residential properties are on let and therefore generate rental income for the Corporation. The rental income for the last five years was as shown in Table 17 below.

Table 17 : Income from Rental Properties

	2003 Kshs.	2004 Kshs.	2005 Kshs.	2006 Kshs.	2007 Kshs.
Reinsurance Plaza	82,522,696	88,711,899	95,365,291	102,517,688	110,206,515
Anniversary Towers	107,056,288	112,409,102	118,029,558	123,931,035	130,27,587
Mombasa Plaza	9,988,736	10,737,891	11,543,233	12,408,976	13,339,649
Kenya Re Towers	57,314,987	61,613,611	66,234,631	71,202,229	76,542,396
Kisumu Plaza	25,808,213	27,743,829	29,824,616	32,061,462	34,466,072
Plainsview Flats	8,640,000	8,640,000	8,649,000	8,640,000	8,640,000
South' C' Flats	26,784,000	26,784,000	26,784,000	26,784,000	26,784,000
Total	318,114,920	336,640,332	356,421,329	377,545,390	400,106,219

Source: Interviews

Evidently income from rental of properties contributes to a big portion of the company's income. It also stabilizes the income flow for the company.

As an example the respondents gave the information about the Meru housing scheme, developed for sale, as Table 18 below.

TYPE	DESCRIPTION	NO. OF UNITS	PRICE Kshs
A	3 Bedrooms	30	1,800,000
B	3 Bedrooms	50	1,500,000
Q	3 Bedrooms	13	2,500,000
	Shop cum Flat	4	5,000,000
	Nursery School	1	15,000,000

Source: Interviews

They also gave the information on another housing scheme developed for sale in Nairobi. It is called Villa Franca Housing Project. Its details are shown in Table 19.

DESCRIPTION	NO. OF UNITS	PRICE Kshs
2 B/R Flats	80	1,300,000
2 B/R Bungalow	37	1,800,000
3 B/R Bungalow	106	2,000,000 – 2,200,000
3 B/R Maisonette	80	2,900,000
4 B/R Maisonette	78	3,000,000
Shop cum Flat	13	4,500,000
Supermarket cum Flat	1	12,000,000

Source: Interviews

They advised that to date 85 units remain unsold which include 85 3-bedroomed units. The difficulty in selling these units is attributed to a design flaw and higher selling price compared to similar units in the neighborhood.

The other housing scheme developed for sale comprise of flats in South 'C' in Nairobi. The description of these flats and their prices are as in table 20.

Table 20 : South "C" Flats by Type and Price

DESCRIPTION	NO. OF UNITS	PRICE Kshs
2 B/R	64	3,500,000
3 B/R	48	4,100,000
Shop	3	6,000,000

Source: Interviews

The respondents indicated that the Housing Scheme was completed in early 2000. Management strategy now is to lease the units while awaiting the market upturn after which selling is expected to pick up. All the flats at South 'C' are fully let.

It was also indicated that the corporation has invested in plots and undeveloped land. These are intended to be sold as the corporation does not wish to develop them presently. Their details appear in Table 21.

Table 21 : Undeveloped Land by Location and Cost

Description	Plot Number	Cost/Valuation Kshs	Date acquired
Mbagathi Way	LR 209/11796	40,000,000	1993
Embakasi	LR 9042/222	75,000,000	1994
Eldoret Plot	Block 15/1832	4,000,000	1994
Ngong Road	LR No21194	220,000,000	1996
Upper hill plot	LR 209/12923	30,000,000	1996
Embakasi	LR 209/11462	3,000,000	1996
Upper Hill Plot	LR 209/12922	40,000,000	1996
Shanzu Plot	LR MN9141	10,000,000	1997
Kiambu Rd Plot	LR 12236	200,000,000	1997
Eldoret Plot	Block 15/16	20,000,000	1998
TOTAL		642,000,000	

Source: Interviews

It was also indicated by the respondents that the Corporation advances mortgage loans both to staff and members of the public on properties it has developed. The current rates of interest charged are five per cent to members of staff and 23 % per annum for members of the public.

They pointed out that the company's mortgage facility for members of the public is limited only to those purchasing the houses developed by the corporation. The facility is a strategy of the corporation of enhancing its investment income.

Table 22 below shows the mortgages portfolio and interest earned for period of 8 years before 2003.

Table 22: Return on Commercial Mortgage Loans Advanced			
YEAR	MORTGAGE LOANS ADVANCED KSHS	INTEREST EARNED KSHS	PERCENTAGE RETURN %
1995	137,748,922	19,796,452	14.37
1996	147,689,909	28,594,420	19.36
1997	150,380,647	35,312,751	23.48
1998	172,884,789	44,541,416	25.76
1999	207,883,349	53,847,009	25.90
2000	175,176,248	45,930,188	26.2
2001	155,178,196	39,097,575	25.2
2002	115,161,295	34,307,499	29.79

Source: Interviews

From the table we observe an obvious linkage between the level of mortgage advanced and the amount of interest earned. In 1999 there was the highest level of mortgage advanced amounting to Kshs 207,883,349. The interest earned that year by the company was Kshs 53,847,009. The lowest interest income was earned, Kshs 19,796,452, was in 1995 when the amount of mortgage advanced was Kshs 137,748,452.

The respondents gave the details of the strategies for improving returns on investments as indicated in table 23.

Table 23 : Strategies for Improving Returns on Investments

Objective	STRATEGY	ACTION PROGRAMME	TIME FRAME
OFFICE/RESIDENTIAL BLOCKS Objective: To increase rental income from Kshs.237.9m in 2000 to Kshs.400.1m in the year 2007	Escalation Clauses / Rent Review	1. Resumption 2. Advising the Board monitoring the property markets	From July 2002
Objective: To sell the remaining two properties i.e. shop cum flat at 2m and nursery school at 9m.	Maintaining competitive rental rates	1. Resumption 2. Advising the Board monitoring the property markets	Continuous
MERU HOUSING Objective: To realize through sales Kshs.137,650,000 by the year 2004	Maintaining good landlord/tenant relationship	1. Prompt attention to tenant needs 2. Good public relations 3. Selection of tenants 4. Install a suggestion box on the ground floor	Continuous
SPORTS COMPLEX	Maintaining a good state of repair of properties	Introduce and adhere to routine and scheduled maintenance	Introduce a maintenance schedule by year 2001
VILLA FRANCA Objective: To sell the remaining units and realize Kshs.567.5m by the year 2002	Enhancing security in the Premises	1. Construction of boundary walls (Residential) 2. Introduce emergency drills and fire response instruction.	March year 2001
	Being environmentally conscious	1. Planting trees, flowers and providing	From year 2001

	3. Follow up on Undertakings	additional disposal bins	Continuous
	4. Give mortgage for Other unsold units	2. Attending to drainage issues	By May 2001
UNDEVELOPED PLOTS Objective: To balance the investments by selling	Aggressive Marketing	3. Discourage smoking by introducing posters e.g. Thank You for Not Smoking	As per projections
		4. Formation of an environmental Group.	
MIGOSI PROJECT Objective: To sell the remaining two properties i.e. shop cum flat at 2m and nursery school at 9m.	Commence aggressive marketing	Advertising in print and electronic media Personal contacts	By March 2001
	Promote investment of surplus funds	Diligent monitoring of cash inflows	Continuous
MERU HOUSING Objective: To realize through sales Kshs.137,550,000 by the year 2004.	1. Offer houses on discount and favorable terms to institutional investors	1. Seek Board approval for terms	By March 2001
	Capital gains	2. Advertising in print and electronic media	Continuous
		3. Personal contacts	
SPORTS COMPLEX Objective: To realize through sales Kshs 34.8m in 2000 to Kshs 72.8m in 2001	Aggressive marketing of the facility Lease facility	1. Proposal of sale to the Board	Board approval in December year 2000
		2. Advertising in print and electronic media Personal contacts	By January 2001
VILLA FRANCA Objective: To sell the remaining units and realize Kshs.567.5m by the year 2002.	1. Reduce prices for 3 BB from Sh.2.5M to Sh.2.2 Million	1. Seek Board Approval	By February 2001
		2. Aggressive Marketing	Continuous
		Advertising in print and electronic media Personal contacts	By March 2001

	3. Follow up on Undertakings	Liaise with relevant lawyers and financiers	Continuous
	4. Give mortgage for Other unsold units	Seek Board Approval	By May 2001
UNDEVELOPED PLOTS Objective: To balance the investments by selling undeveloped plots and investing the funds in liquid securities	Aggressive Marketing	Advertising and monitoring progress	As per projections
INVESTMENT IN T-BILLS / BONDS Objective: To increase the investments in this area from Kshs.1, 019m to Kshs.2, 195m in 2007	Prompt investment of available funds Active portfolio strategy to be adopted by Investment Committee	Diligent monitoring of cash inflows	Continuous
EQUITY INVESTMENTS Objectives: To increase dividend income from Kshs.34.6m in 2000 to Kshs.72.6m in 2007.	Capital gains being rolled over into other high return and well performing shares	Monitoring the shares market trend in the Nairobi Stock Exchange	Continuous
	Increased dividend received from equity	Prompt investment on receipt of dividends	Continuous
SOUTH C FLATS Objective: To sell all the units 112 houses and 3 shops	Increase leased units by 301 by year 2004	1. Aggressive selective Marketing	Continuous

Source: Interviews

CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary And Conclusions

5.1.1 Environmental Changes

From of the findings of the study it evident that Kenya Re has faced many changes in its business environment. These changes have poised challenges to the organization. Specific challenges include increase local and international competition, technological changes, overstaffing, bureaucratic processes due to 100% ownership by the government, poor economic performance, failed privatization attempt and lost compulsory policy and treaty business cessions.

5.1.2 Response by Kenya Re to Environmental Changes

The objective of this study was to establish the responses of Kenya re to changes in the environment. The results of the study show that Kenya Re has responded in very many specific way to counter adverse effects of these changes. Great emphasis has been placed on local and international marketing function. There has been deliberate and focused staff training programmes developed. Retrenchments were done three times to rationalize staff. Investments were done in real estate to generate rental income and undeveloped land acquired for future speculative sale. Technology has been embraced including computerization and creation of a website. Financial investments have been spread out between short and long term ones.

5.2 Limitations

Information on the company is readily available from one source and therefore the researcher had to struggle to get pieces of information from various departments in order to derive useful information.

Data for the period 1995 was particularly difficult to come by. Fortunately for this study environmental changes that directly impacted the company began in 1995 when compulsory business cessions to the company began to be removed.

The time for the research was short.

5.3 Recommendations For Further Research

This study focused on responses of Kenya Re to business environmental changes in Kenya. Kenya Re is unique from the other five reinsurance companies operating in Kenya. It is state owned and was in a monopolistic position for many years. It's also a market leader. It's the only one with a single shareholder.

I therefore recommend that a study be carried out to find out the kind of responses adopted by the other reinsurance companies to changes in the business environment.

I further recommend that Kenya Re should seriously consider privatization to delink itself from the bureaucratic control of the government in the interest of quick commercial decision making on key issues.

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APPENDIX 1

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Dear Respondent,

This questionnaire is designed to gather information on the effects of environmental changes and the responses used by Kenya Reinsurance Corporation Limited (Kenya Re).

This study is being carried out for a management project paper as a requirement in partial fulfillment of the degree of Master in Business Administration of the University of Nairobi.

Your responses will be treated strictly confidential and in no instance will your name be mentioned in the report.

Kindly cooperate

Yours sincerely

Jacien M. Mwarania

MBA STUDENT

Prof. Evans Aosa

SUPERVISOR

APPENDIX 1

LETTER OF INTRODUCTION

September, 2003

Dear Respondent,

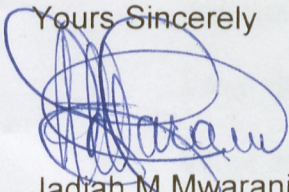
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Kindly cooperate.

Yours Sincerely



Jadhah M. Mwarania

MBA STUDENT

Prof. Evans Aosa

SUPERVISOR

APPENDIX 2

QUESTIONNAIRE

Please answer the following questions.

SECTION A: RESPONDENT'S PROFILE

Position Held _____

SECTION B: CHALLENGES FACING KENYA RE.

1. Please describe the changes that have taken place in the last 10 years in the business environment which have affected Kenya Re.
2. What challenges have these changes posed to Kenya Re?

SECTION C: RESPONSES

3. Has Kenya Re responded to the above environmental changes?
YES/NO.
4. Please explain in detail how Kenya Re has responded to the challenges identified.
5. Are there any other responses that Kenya Re has made as a result of the changing competitive situation facing the company?
6. Are there any challenges that Kenya Re have not responded to and why?
7. What are you intending to do in the future about the challenges that you have not responded to?
8. Do you consider the company's strategic responses to competition adequate?
9. What else do you feel Kenya Re should do to stay competitive?
10. What areas have improved in the company?
11. In your assessment, does Kenya Re currently possess the necessary capability to adopt aggressive strategies to match the external environmental changes?

If not, please indicate the possible means by which Kenya Re can acquire these capabilities