THE INFLUENCE OF REGULATORY FRAMEWORK ON INSURANCE PENETRATION IN KENYA. A CASE STUDY OF THE REGISTERED INSURANCE COMPANIES IN NAIROBI COUNTY.

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DECLARATION AND RECOMMEDATION

This thesis is my original work and has not been presented for a degree or any other award in any other university.

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DEDICATION

This work is dedicated to my loving wife Suzie, and to my loving daughters Kezie, Fei and Rhoda for their moral support and encouragement.

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ABSTRACT

Insurance is the business of undertaking liability, and as such, liability to pay for damage or to make reimbursement in regard to loss, damage and or injury involving life(s), or property arising from the occurrence of a particular event. Despite the growth in number of companies and insurance agencies, the insurance penetration level has stagnated at 3.01%. Development of the county both on the economic and social dimensions is significantly challenged by the low insurance penetration. The main purpose of the research study was to assess the effect of regulatory frame work on insurance penetration. How regulation of insurance prices affects insurance penetration in the county. The effect of price regulation on the penetration of insurance in Kenya. How regulation of claims settlement enhances penetration of insurance. The effect of insurance product approvals on insurance penetration, and how regulations of distribution channels affect insurance penetration in Kenya. The study was based on stakeholder's theory, utility theory, claims settlement theory and the theory of distribution channels. The study employed census method since all the managers were interviewed. All ethical issues pertaining to data collection were observed. Authorization letter from the university and a research permit from National Commission for Science, technology & innovation (NACOSTI) was obtained. Data was analyzed using descriptive statistics and inferential statistics. Descriptive statistics involved the use of frequencies, percentages, means and standard deviation. Inferential statistics involved the use of logistic regression. The results of the analysis indicated that, price regulations, insurance claims settlement process, insurance distribution channels and regulations on insurance products are all significantly associated with the odds of insurance penetration in Kenya. Recommendations were drawn from the findings of the study as follows; the government needs to regulate prices on insurance products. Second, the insurance claims settlement process needs to be regulated. Third, the insurance distribution channels need to be regulated to increase efficiency. Lastly, there is need to regulate insurance products as a way of enhancing insurance penetration. The study recommends that further assessment of regulations of other insurance aspects such as customer care, consumer education, and enhanced regulatory framework be investigated.

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ACRONYMS

AKI   –   Association of Kenyan Insurers

BATNA   –   Best alternative to a negotiated agreement

GDP   –   Gross Domestic Products

ICT   –   Information Communication technology

KPMG   –   Klynveld Peat Marwick Goerdeler

LIC   –   Life Insurance Corporation

NSSF   –   National Social Security Fund

OECD   –   Organization for Economic Co-operation and Development

PWC   –   Price Waterhouse and Coopers

SACCO   –   Savings and Credit Cooperative

CHAPTER ONE

INTRODUCTIION

1.1 Background of the study

According to Banks (2014) Insurance is an arrangement or business practice of indemnifying property, life, group of lives, against loss or damage occasioned by defined unforeseen events including fire, calamity, demise, incapacitation, or such like contingencies, in respect of a payment commensurate to the risk involved. He further defined insurance in the context of a contract between two parties with one party (insured) transferring a risk to the other party (Insurer) so that in the event of loss as spelled in the terms and conditions of the contract, the insured will be compensated commensurately. According to the Insurance Act Chapter 487 Laws of Kenya (Insurance Act, 2015) insurance is defined as the undertaking of liability of business by the way of insurance (including reinsurance in case of any loss in regards with life and personal injury or any damage, such as liability for payment or compensating the damage when a specified event happens.

The salient element about insurance within the business context is that it has the capacity to safe guard an organization or business against the loss of its key men. Key men are special persons in a business who are critical in product development or top scientist in organizations. Insurance also provides the balance between money which is the organizational objective and health of the employees because healthy work force is health productivity. Insurance is critical in a business because it provides funds for research in marketing, population perceptions and impacts of entry of new products and players.

The insurance landscape globally is both incrementally and, more importantly, fundamentally changing and with such trends there arises the challenges of accurately

predicting how the future will look like in the light of entry of new businesses, tough environments for investments and regulations as some of the challenges insurers are grappling with and especially in the backdrop of financial crisis (Klynveld Peat, Marwick Goerdeler [KPMG] 2014).

Over and above the aforementioned, the insurance industry at large has far extensive challenges to respond to; changes in demographics, shifts in consumer behaviors, revolution in the digital platform (new and continuing social trends causing a transformation in how businesses is being conducted, a shift from the traditional business models, the way people are interacting, and emerging markets' that threaten to disrupt the already developed market) have the potential significantly to shape the future of the industry in the long stretch (Price Waterhouse Coopers[PWC] 2012) of particular concern are the impact the whole insurance value chain is witnessing and will continue to experience; how insurance products are distributed, insurance intermediation, risk profiling and management. At the core of this transformational impact is an intricately interconnected energetic marketplace; consumers (both individual consumers and businesses) characterized and driven by overly demanding needs (simplicity of processes, transparency and speed in their transactions) preferences, and expectations as well as an increasing consumption power.

Consequently, insurance players across all categories such as emerging, survivors, and developed leaders as well as other insurance sectors including personal lines, commercial lines, individual life, annuities and retirement are tasked with preparing for such a future through anticipating these changes through developing and adopting strategies guided by such foresight (KPMG, 2014).

In Kenya, the recent stretch of years has seen the insurance industry and environment undergo a series of changes primarily driven by financial developments, advancements in IT and communication, globalized access to financial amenities as well as multifaceted financial development: Substantial effects on proficiency, changes in production, topology of the market, and competition in output in the insurance industry have contributed these changes. The National security legislation, (National Social Security Fund [NSSF] Act, 2013) upgraded the scheme through the enhancement of the remittances done each month to the scheme by both employers and employees to a combined rate of 12% of pensionable earnings per employee per month. The fact that the law makes it mandatory for every employer to register their employees under the NSSF Act and the provision for opting out of NSSF schemes means that pension business is now set to grow in the industry further meaning that the concept of social insurance is enhanced introducing a different dimension on how insurance consumers will interpret social insurance versus commercial insurance. Still on the regulatory framework front, for instance, a heightened emphasis on Anti-Money laundering supervision on financial institutions including banks and insurance companies by the regulators (Finance Act,2018) further amending the proceeds of Crime and Anti-Money Laundering has significantly shaped business operations within the country's financial market. Moreover, with the introduction of the companies act (Companies Act 2015) the regulatory environment has been transformed to a great extent in terms of the incorporation, registration, operation, management and regulation of companies. All these legal and regulatory developments have a bearing on some of the vital operations, processes and inputs; compliance will be essential for smooth operations that affect operations of the insurance companies.

The insurance sector in Kenya has many insurance companies, Vis a vis low penetration rate. By 2001 registration and licensing data from the industry regulator, Insurance Regulatory Authority (IRA), indicated that 40 insurance companies had been cleared to operate while the number of registered insurance agent's stood at 1074. The penetration rate at that period was 3.0%. In the following 10 years up to 2011 there was no growth in insurance penetration in spite of the increase of the industry insurers to 46 and licensed insurance agents rising to a figure of 3085. In the year 2012, an increase was witnessed on the licensed insurers in the country to stand at 53 and for the registered insurance agents rose to a figure of 5000, notwithstanding; the insurance penetration index did not grow from 3.0%.

The period from 2013 to and including 2018 growth was registered for the insurers and the insurance agents in the country; the former grew to 55 while the latter rose to 8,700 (Insurance Regulatory Authority [IRA] 2013, 2014,2015,2016,2017 & 2018). The number of registered Insurers by the Authority as at 2017 vis a vis the Kenyan population stood at 1.1, that is one insurance company for every one million Kenyans, a parallel to the ratio of the number of banks to the population in Kenya (Cyton Investment, 2015). Despite these developments, insurance penetration level still remains low at 3.01% lower than the average of 3.8 % in Africa. Since the year 2013 to 2018 the Authority embarked on training insurance agents at county level in a bid to create capacity in the industry. The Authority spends an average of Ksh.15 million in each quarter to date as training expenses in the counties. The aim of the training was to increase insurance penetration. Despite this spirited effort insurance penetration in the country still stagnated at the rate of 3.01% (IRA, 2018). With an ever-increasing number of insurers in the Kenyan market, and mostly recently the entry of international insurers insurance business in Kenya

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presents unparalleled survival challenge to the already existing insurance firms. A lot of activity has been witnessed in the Kenya insurance industry in the last five years; mergers and acquisitions, for instance the old mutual and UAP merger, the buyout of Real insurance by Britam; such trends are anticipated as stiff competition takes its toll on the industry (Kimani & Wagoki, 2015). Keenly observing the ongoing trends, it is to be inferred that insurers who will not be able to match the competition will very likely be compelled to downscale on their workforce or worse still close shop altogether. It has to be recognized that almost all business sectors have had exceptional magnitude of competition both locally and on the international platform; necessitating scrutiny of the strategies and behaviors the firms have employed in regards to competitive advantage across the various business environments (Kimani &Wagoki, 2015).

The entry of new insurance firms as well as exit of major firms could also change the playing field if the new player brings in innovative new products or innovative ways of doing things. Failure or exit of existing players could also shake up the industry and change the rules of the game (Association of Kenya Insurers [AKI], 2014). A second driving force would be the changing societal concerns, attitudes and lifestyles; the current consumption level of insurance is relative low corresponding to the level of economic activity in Kenya implying that Kenyans, have a blind spot in risk. Change of this attitude or life style means a shift in the insurance market. Evidently, a myriad of opportunities is available for the insurers in light of market disruptions and alignments locally and internationally. Firstly, retail and wholesale markets, credit, personal & life insurance investment and banking products have been revolutionized and transformed by mobile technology and digitization; secondly, an increased financial services' need has been stimulated by the rapidly increasing numbers of aspiring consumers in the middle

markets that are emerging. Thirdly, an increased volatility has been impacted by environmental challenges, social inequality and youth unemployment that is both global and local. Lastly, financial services providers' concentrations on opportunities and infrastructure have been significantly challenged by mega cities that are rapidly expanding and urbanization that is mass. The leveraging aspects will most likely focus on deepening of management capability, capitalization for expansion, and strengthened proficiency for servicing and growing developing markets. Indeed, insurance premium growth in the local market is likely to be sustained by increased diversification, for instance in performance of annuities.

The foreseeable trajectory representing the rest of Africa is that demand will continue to be boosted by favorable demographics including disposable incomes that are increasing, economic growth that is strong and a very low penetration for the insurance business. In addition, insurance growth will be supported by the microfinance broader use together with distribution models that are innovative as well as the increasing awareness of insurance usefulness. It is noteworthy that the Government of Kenya has spelled out and endeavors to spur financial inclusivity for its population through the vision 2030 economic roadmap (Government of Kenya [GoK], 2007). In particular, access to insurance is given attention, as a means to wealth protection and cushioning of livelihoods in the face of loss of life, critical illness, destruction of property, and a horde of other life misfortunes. Low-income segment of the population bears the highest brunt when calamities or misfortunes strike owing to the high vulnerability to a host of financially inclined challenges thus in dire need of insurance coverage. Penetration of insurance thus would not be achievable outside the inclusion of this important and significantly sizeable segment of the population. To this end, a majority of the insurers

in the Kenyan market have begun to shift focus to capture this group; however, there is still little to write home about insurance uptake in this segment. It is the interest of the researcher to establish whether the insurance regulatory framework in place is robust enough to accommodate inclusion of this population into the insurance coverage allowing a growing insurance penetration.

Moreover, insurance basically offers a financial net or protection for the valuables of a populous. To this end insurance companies have tried to curve a niche for themselves and sought to leverage on favorable insurance prices, to solidify and buttress their financial strength and offering excellent services; best understood under the strategy of commoditization. It appears then that the developing markets have significant business opportunities for insurance companies; on the dimensions of growth of portfolio and penetration into virgin forts. This appears to be reverse innovation, as some people would call it, when developed markets look to their lesser developed counterparts to adjust and fine-tune their business strategies and operation, but in essence, it bespeaks a readiness in the market to grow in tandem with market disruptions . The current coping mechanism of people without insurance in the face of sickness, death or other calamity is to use savings, borrow or selling assets. Informal insurance mechanisms are very common offering inpatient, outpatient, death and theft coverage in exchange for regular contributions. There is a preference in dealing with local and more accessible financial options. Potential clients are willing to pay for coverage if it is reasonably priced and explained to them. Understanding the income level of the average Kenyan is an important factor; willingness to pay does not exceed, on average, 2% of monthly income of the target population. Dominantly, the largest risk faced is health, followed by theft and death.

Depth of Insurance Markets by Region, 2012

The insurance penetration ratio is a representation of the portion of all insurance premium transacted by the insurance companies within a given financial year as a percentage of the GDP of the country for the same year. This ratio tells the level of insurance penetration for that a given economy for the year under consideration. In the Africa continent, Kenya's insurance penetration index is modest in comparison to other nations such as Tunisia, Nigeria, and Algeria. Noteworthy, the perception of Kenya as the financial hub in the Eastern and Central Africa by other markets, or investors outside the continent may have contributed to an increase in its insurance penetration from 0.10% to 2.8% by close of the year 2010. Consequently, this may have contributed to the long drawn positive influence of the growth of the insurance sector in Kenya. Swiss Re's global insurance report for the year ended 2012 placed Africa's cumulative insurance premiums in US dollars 71.9 billion, representing a penetration index of 3.65%. Compared to the global average insurance penetration index of 6.5% for the same period, this percentage was considerably low (Swiss Re, 2012). These statistics on the penetration index show that the Kenyan insurance market has a horde of opportunities to offer for business. It is to be noted that Micro insurance and ban assurance components of insurance classes, products which are still new and at the entry levels in the industry, have the potential to significantly propel growth in premium volumes and the penetration index (AKI, 2014). The table below indicates insurance penetration indices as well as the insurance density in certain peer countries which at a given time were economically at par with Kenya. Indicating that Kenya has lagged behind as per published data of 2012. The table illustrates that Kenya ranks even lower than average penetration in Africa at 3.01%

Table 1.1:

Depth of Insurance market by Region

Region	Total Premium in US$	Penetration rate (%)	Premiums per Capita (US$)
Advanced Asia	936.0	11.80	4,387.5
North America	1,393.4	8.03	3,996.3
Western Europe	1,462.7	7.72	2,716.3
Oceania	97.1	5.60	2,660.2
South & Central America	168.7	3.00	281.9
Central & Eastern Europe	72.5	2.01	223.4
Middle East	40.9	1.35	124.0
Emerging Asia	369.4	2.96	101.9
Africa	71.9	3.56	66.4
World	4,612.5	6.50	655.7

Source: Swiss Re (2012)

Africa's insurance penetration percentage is comparatively higher than that of regions such as Middle East, Central & Eastern Europe, and South & Central America, as tabulated, however its insurance density performs dismally – it is the lowest for all tabulated regions.

In the context of African countries, South Africa, according to Swiss Re(2012) had an insurance penetration index of 14.2%, boasts an insurance market that is significantly developed, competing strongly with the world's leading insurance markets (Swiss Re, 2012). Excluding the contribution of South Africa from Africa's average penetration

index, it goes to show how dismal African performance is as a region, on the global level, as well as its member countries. As per the data, for the period ended 2012, South Africa's contribution to Africa's total insurance premium of US$71.9 billion stood at US$54.9 billion. This is to say that, cumulatively, the other African countries brought in US$17 billion to the pool translating to a meager penetration proportion of 1.04%. As shown in the table below, the only other African countries with penetration rates of above 3% are Namibia, Mauritius, Botswana and Kenya, while that of Morocco was marginally below 3% in 2012.

Insurance companies continued to grow in number and by 2012 there were 52 registered insurance companies then the period between 2013 and 2018 witnessed a rise in the registered insurance companies from 52 to 53, all this operating within the lean insurance market. To further underline the low level of insurance penetration in the perspective of market profitability performance Mbogo (2009), the total profit after tax made by the insurance firms in the financial year ended 2012 was Kshs.7.7billion, while a single bank, Barclays Bank, registered a profit after tax figure of Kshs.10.5 billion in the same financial period. The 55 insurance companies are licensed and regulated by Insurance Regulatory Authority. This study attempts to establish that the regulation of price, claims settlement, channels of distribution and products will aid insurance penetration.

Table 1.2:

The size of the African Insurance industry in 2012

Country	Premiums (US$ million)	Nominal GDP, (US$ billion)	Penetration Rate (%)	Population (millions)	Density (Premiums per Capita, US$)

South Africa	54,871.0	384.3	14.28	52.4	1,047.4
Morocco	2,857.0	96.1	2.97	32.5	87.9
Nigeria	1,828.0	270.2	0.68	168.8	10.8
Egypt	1,818.0	269.0	0.68	80.7	22.5
Kenya	1,290.0	40.7	3.01	43.2	29.9
Algeria	1,250.0	208.2	0.60	38.5	32.5
Angola	1,140.0	114.1	1.00	20.8	54.8
Namibia	980.0	13.1	7.50	2.3	433.72
	916	45.2	1.18	10.9	75.0
Ghana	791.0	39.6	2.00	25.4	31.2
Mauritius	655.0	11.3	5.78	1.2	528.4
Botswana	459.9	14.5	3.17	2.0	229.5
Tanzania	254.2	28.2	0.90	47.8	5.3
Gabon	238.9	18.4	1.30	1.6	146.3
Senegal	202.5	14.5	1.40	13.7	14.7
Libya	173.6	82.7	0.21	6.2	28.2
Zimbabwe	166.6	9.8	1.70	13.7	12.1
Rwanda	164.0	7.1	2.30	11.5	14.3
Uganda	128.5	19.5	0.66	36.3 3.5	3.5
Morocco	2,857.0	96.1	2.97	32.5	87.9
Nigeria	1,828.0	270.2	0.68	168.8	10.8

Sources: Swiss Re, UN Population Division, International Monetary Fund, African Insurance Organization, NKC Research

1.2 Statement of the Problem

Insurance Regulatory Authority has licensed 55 insurance companies (IRA, 2019) The Authority has aggressively trained and licensed insurance professionals such as actuaries, insurance agents and brokers in order to improve insurance penetration. In average the Authority uses Ksh.15million per county to fund the bid. Despite this effort insurance

penetration in Kenya is still low compared to Kenyan peers such as South Africa, Namibia amongst many other African states. In the course of time, Insurance has received recognition and appreciation by many people because it is found to resonate with the risks these people face and offers reprieve in times of loss or unpredictable perils. Such is the role that insurance plays in the social fabric of any given economy; mitigation of perils attributable to destruction of property or and loss of life. On a large scale, insurance affords an economy the chance to grow with minimal disruptions by offering a platform of stability for business processes and economic activities.

Low penetration of insurance products in Kenya robs the economy the most needed economic facilitation for business and livelihood. The greatest risks that face majority of Kenyan are death of the breadwinner, sickness, accident, loss of property and drought. To this end, welfare groups play an important role in providing a coping strategy these for low-income people. However, the payouts rarely cover all the costs directly related to death and hospitalization. The population segment of the uninsured also is unbanked, does not belong to a Savings and Credit Cooperative (SACCO) or a microfinance institution and live in the rural areas. Instead, they belong to the large informal insurance market of welfare groups (pay regularly so the fund is available when an event happens) or a fund drive (which is a social gathering occurring after an event that raises money for those that cannot afford the event's costs.)

Accidents have injured or claimed the lives of many Kenyans, with a good proportion of the affected been income earners. These cases of loss expose many families to abject poverty where insurance cover was not in place to take care of the dependants of the bread winner or to guarantee continued income for the injured. The case would have been different were an insurance policy, say for personal accident or life insurance, in place to

facilitate continuity of livelihood. Despite numerous benefits that insurance affords the livelihoods of any population, a considerable portion of potential insurance consumers distrust insurance as bad word of mouth plagues the industry especially around affordability and claims handling. Moreover, because of low intake of insurance in a country, the government misses out on funds to do business and other economic activities such as infrastructural developments. These funds are only available when insurance companies collect premiums and, over and above paying claims and daily business operations, invest their surplus in government financial instruments. The citizenry, through insurance uptake make available these funds for borrowing. Through infrastructure bonds the Government can build roads, hospital and schools. Therefore, we understand that low penetration of insurance, in this context products, challenges the realization of improved social and economic welfare.

There have been a couple of changes in regulatory environment. The Insurance Regulatory Authority, the industry regulator, has set stipulated claims payment periods, premium rates, training for intermediaries and competency requirements. In particular: Intellectual property and copyright laws – insurers companies are not allowed to copy other company products (IRA, 2012). New regulations are in place allowing banks to sell insurance (ban assurance) and foreign companies to own insurance agencies. The Enactment of a Consumer Bill which empowers consumers regarding service delivery levels. Increased cost of compliance as well as a new risk-based regime introduced by the regulator further shape the regulatory environment. All these legal developments on the regulatory framework bear influence on the trajectory of the insurance, either negatively of positively. In particular, the regulator is both mandated by the insurance Act to supervise, through regulations and prudential guidelines, and at the same time to

develop the insurance industry. The two roles have almost clashing interests; on the one hand the regulatory framework ought to facilitate an environment for growth of the industry while protecting the interest of all stakeholders. Achieving the needed balance to this mandate is, to a considerable extent, an elusive endeavor and this reflects clearly on the performance of the insurance penetration index year after the other.

Low penetration of insurance in Kenya also denies the country economic growth since insurance companies can employ thousands of people who in turn create market for products and in essence encourage production. Due to low uptake of insurance products in the country, many Kenyans have little or no access to medical healthcare. Many insurance products have medical benefits attached which would help Kenyans attain healthy lives and consequently improve their life expectancy. Insurance provides a mechanism to safely transfer risks from the insured to the insurers. The current coping mechanism of people without insurance in the face of sickness, death or other calamity is to use savings, borrow or selling assets. Potential clients are willing to pay for coverage if it is reasonably priced and explained to them. Low insurance penetration in Kenya impedes this practice and there is over concentration of risks to individual Kenyans. Low penetration of insurance products impedes the culture of saving amongst Kenyans. Life insurance facilitates an efficient saving practice in that it allows the insured to make regular premium payments. This savings provides a mode of investment and at maturity the insured gets cash lump sum which can be used as a source of capital for business ventures.

The research wishes to make an inquest into whether the policy and regulatory dimension of the insurance is attuned well to what will make the market work in a prudential manner. Additionally, in light of insurance penetration, the study endeavors to get a grasp

of the extent to which prevailing regulations permit efficiency in reaching the mass markets, facilitation of building trust, transparency and driving a positive perception narrative in the industry. Importantly, it is in the interest of the research to appraise the performance of the regulatory framework within the parameters of insurance pricing, claims management, product design and packaging and distribution channels; has it facilitated ease of doing business, financial inclusion, and economic growth or has it become an impediment to insurance growth ad penetration. The research study's main focus is to find out what effects' regulation has on insurance product prices, claims settlement, distribution channels and use of products has on insurance penetration.

1.3 Purpose of the study

The general purpose of the study is to assess the effect of the insurance regulatory frame work on insurance penetration in Nairobi County.

1.3.1 Specific Objectives

i.   To determine the influence of regulating prices of insurance products on insurance penetration in Nairobi County

ii. To establish the influence of regulating claims settlement process in insurance companies registered in Nairobi County on insurance penetration.

iii. To determine the influence of regulating insurance distribution channels on insurance penetration in Nairobi County.

iv. To determine the influence of regulating the suitability of insurance products on insurance penetration in Nairobi County.

1.5 Research Hypothesis

To guide in the achievement of the study objectives, the following hypotheses were formulated and tested at 5% level of significance.

H01: Regulating prices of insurance products has no significant influence on insurance penetration in Nairobi County

H02: Regulating insurance claims settlement process has no significant influence on insurance penetration in Nairobi County

H03: Regulating insurance distribution channels has no significant influence on insurance penetration in Nairobi County

H04: Regulating the suitability of insurance products has no significant influence on insurance penetration in Nairobi County

1.6 Justification of the study

This study may assist the Government in reviewing, standardizing and legislating laws and regulations that are contemporary to modern insurance practice. The study may also help members of the insurance industry to put more emphasize on the researched independent variables that will enhance the growth of insurance in the country. Lastly, the study will enrich the body of knowledge in insurance academia. Many studies done in insurance industry have been undertaken on the general factors that influence insurance penetration. This study focused on regulatory framework, that is, product approvals, price regulation, distribution regulation and claims settlement

1.7 Scope of the Study

Kenya has 55 registered insurance companies, and operational within Nairobi. The 55 insurance companies have a total of 8,000 registered insurance agents (IRA 2018) out of the registered total number; Nairobi County alone has above 4,500 insurance agents. Each registered insurance company has1 Underwriting Manager and 1 Marketing Manager.

The research therefore targeted the above insurance Managers who are working in registered insurance companies within Nairobi County. Most of managers in the insurance industry have had many years in insurance business and therefore they have the capacity to understand insurance issues that need to be addressed to increase its uptake. Further the study focused on the effect of regulatory framework in relation to product, price, claim settlement, and distribution on insurance penetration in Kenya.

1.8 Limitations of the Study

The unwillingness to divulge information that they consider key to their company competitive advantage. To overcome this challenge, the respondents will be given assurance on the confidentiality of the information they disclose. Another limitation was the possibility of not being given sufficient time by busy managers in answering the questionnaire. To overcome this challenge, the study employed drop and pick latter approach when administering the questionnaires.

1.9 Delimitation of the study

The Impact of Regulatory framework on Insurance penetration in Kenya; a study involving the 55 licensed insurers operating within Nairobi County focused on the identified gap of low penetration of insurance business in Kenya. Insurance practice is the only business in the financial sector that has low penetration in the economy. The banking sector, SACCOS and Capital Markets have relatively higher penetration level compared to insurance practice and therefore it was desirable to research on the topic. In order for the study to achieve its purpose' the research theorized four variables namely: Insurance product prices, insurance products, claims settlement processes, and insurance distribution channels. The study answered the questions on whether regulating the four variables will increase insurance penetration. For the research to achieve its main purpose it used a census method in which all 55 registered insurance companies were involved and out of which 110 selected managers were sampled.

The research was based on four theories namely: The Stakeholders Theory, Utility Theory, Claims Settlement Theory each theory was deemed relevant on how each theory works.

1.10 Significance of the study

The Impact of Regulatory framework on insurance penetration in Kenya is significant because it will awaken Kenyans on the need to embrace financial insurance in place of social insurance practiced under the guise of family ties, harambees, Chama's etc. It will also awaken them to the fact that, in modern times, there are financial instruments that one can transfer their risks/fears and have peace of mind: for in the transfer of the risk to another party, it means they will be compensated if the transferred risk takes place. This study is significant because it will bring understanding to Kenyans by changing their

perceptions on the way they perceive property and life. The study will enlighten them to see property and life in terms of financial value rather than a plain matter.

1.11 Assumptions of the study

This study is guided by the assumptions that managers of insurance companies are well versed with technical matters related to insurance practice and are able to relate the technicalities of insurance business to needs and perceived needs of consumers. The study further assumed that respondents will truthfully and correctly fill the questionnaires to enable the study get a fair reflection of its objectives. The study lastly assumed that The Government will have political will to implement recommendations arising from the study findings.

1.12 Definition of operational terms

Insurance: is the act of transferring one's financial liability to a third party (usually an insurance company).

Insurance Act CAP 487: Legislation in the Kenyan law which regulates insurance.

Premium: The payment done by an insurance policy holder to an insurance company to enable the policyholder transfer his risk to an insurance company.

Risk: Something that is likely to increase the chances that a particular unfavorable event will occur.

Thematic focus: Is the main theme in a particular focus

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, theories related to the regulatory framework in regard to product approvals, price regulation, claim settlement, distribution approvals are discussed. The chapter focused on the recent studies in insurance penetration. A conceptual framework was developed to show the interrelationships between the independent variables and dependent variable.

2.2 Theoretical Framework

This study is primsed on the following theories, Stakeholder's theory, Utility theory, Claims settlement theory, and Channels distribution theory

2.2.1 Stakeholders Theory

The stakeholder theory was formulated by Friedman and Miles (2006). The Stakeholder theory advances the precept that the objective of a business is creation of optimal returns for the investors. According to Friedman and Samantha (2002), an organization embody all stakeholders, their interests, perceptions, and needs, and as such it should function or be managed in a manner that will sufficiently represents all the parties involved and be sustainably viable and beneficial over the period of its operation. To this end, managers in an organization are not only accountable to the shareholders or stockholders but as well to other stakeholders attached to the organization's operations such as the clients, suppliers, employees, who all in a way or the other influence the performance of the organization.

Price is an important component within the marketing mix. The price of insurance products is not controlled by the insurance Act and its only commissions of various insurance classes are stipulated in the regulatory frame work. The provision of the guide line is for the attempt of making insurance affordable to insuring public. Price guidelines are done taking into considerations of company's expected profits as well as the consumers' affordability. This study assumes that regulated prices will make it easier for the managers and insurance staff to sell with insurance with ease. It is envisioned that the pricing regulations will permit a more efficient way of reaching the mass markets and helping to build trust in the industry by fostering more transparency. It further assumes that regulated products offered will have a variety of designs for the varying market segments, and as well the designs will be simplified for ease of understanding for the target consumer. Importantly, its assumed that the regulations will drive at protecting the consumer particularly by seeking to guarantee timely access to right information relating to any insurance contracts they have engaged in – that the language in these contracts detailing the product scope of coverage, inclusions and exclusions and all pertinent elements of the contract is simplified, and that the processes -purchase, renewal, claims - are simple, straightforward and efficient.

2.2.2 Utility Theory

The founders of utility theory treated the existence of yardstick for measuring utility as something that was unproblematic. Authors Menger and Walras never raised the question of measurability of utility. The authors linked actual utility to demand though they didn't derive the implication of diminishing marginal utility for demand behavior (Blaug, 1997).

Utility is one of the building blocks in economics. Cramer (1728), noted that utility became firmly related to observable choice after the ordinal revolution at the beginning of the century. Approval of insurance products takes into consideration the ability of the products to both satisfy needs and their flexibility to meet different consumer needs in the market. The assumption here is that regulated products will be accepted in the market and thus the market will start seeing their purpose. It's further assumed that people will start buying insurance products rather than the current state where it has to be sold and so this will enable insurance managers to sell more products and thus increase insurance penetration. It is worth to note that the peculiarities of the Kenyan market in far as demand for insurance is concerned, do play a considerably key role in determining the uptake and penetration margins. To this regard, forces such as competition from substitutes, to say high competition from substitutes outside the insurance industry such as social networks and family ties, SACCOS, chamas (table banking, merry go round and related informal social arrangements), and banks dictate uptake of the formal products released to the market. To say that the customers in this industry wield a significant power owing to the fact that they have a variety of choice, and switching costs are low.

Another vital aspect of the demand spectrum is the current Kenya governance structure; the devolution and creation of the County Government has provided new business opportunities. Improved infrastructure (completed infrastructure and ongoing ones like the standard gauge railway, county inter-linkage road infrastructures), an expanding middle class and increased disposable income, expected economic boom as a result of oil and gas discoveries in North Eastern and mineral discovery in Coast region will all contribute significantly to the grow the insurance market. Mover, the new constitution

has created new bodies and functions in both local and national governments increasing the sources of business.

Moreover, the Kenyan socio-cultural landscape holds sway in as far as including insurance uptake is concerned. Lifestyle choices and attitude towards insurance affects insurance penetration. Social factors propelling insurance uptake include; increased youthful population which continually creates opportunities for new products for the youth. The youth in particular are inclined to short-term investments. An increased life expectancy is creating a market for personal pension products. Increased education levels and literacy have increased understanding of the importance of insurance. Increased social cultural groupings have slowly been developing a savings culture and created new channels of distribution. Changes in lifestyles have also led to increased lifestyle health problems, pushing the need for health insurance. It is also expected that certain social factors in the market have the potential of slowing the uptake and at large the penetration of insurance in the Kenya market. These included; a perception among the poor that insurance is for the rich. As well, religious beliefs have slowed the uptake of insurance. Dependency tendency and reliance on fund drives still hampers uptake of life insurance.

2.2.3 Claim Settlement Theory

In conflict management, and in particular settling of disputes in a social set up, negotiation plays a primary role and is a prevalent means to this end. Comparatively, this mode, commonly used, unlike its counterpart unilateral action or arbitration by a third party, finds its popularity from its characteristic offerings: it is fairly less costly and has minimal risks (Pruitt & Carnevale, 1992). As well, in the context of negotiation, mediation plays a central role, by offering a third party's intervention or assistance,

depending on whether the third party is in a position to enforce solutions to the matter is a matter of debate among scholars (Wall et al., 2001).

There are such mediations in negotiations in which the third party (in such scenarios preferably called an *intervenor*) comes in to assist but with particular expectations, which need be met by the parties before an agreement can be arrived at. In the context of utility, for products and or services, on the one hand, the potential consumer makes consideration of the cost of their intended purchase, and on the other hand, the seller has an expectation of the prices placed on the product/service, a profit margin, a price point below which the transaction cannot take place. Once these two expectations converge or fall within acceptable limits, a favorable outcome on the negotiation can be anticipated. The existence of a field of converge however, does not readily guarantee fruitful negotiations to the end that there is an agreement, neither does it necessarily point out accurately how the negotiations will end. The outcome, many times depend of the skillfulness employed in negotiation by the involved parties.

Fisher and Ury (1981) introduced a different perspective of viewing negotiations: their approached proposed the Best Alternative to a Negotiated Settlement (BATNA) In this approach, as regards a business transaction, the status quo is maintained, the deal is not closed, no purchase or sale occurs.

A research study focusing on the uptake of insurance and the factors that influence the same in AkwaIbom state, Nigeria asserted that accessibility of insurance and swift claims settlement were positively correlated to the uptake of insurance (Ebitu et al.,2012). Moreover, Akpan and Emem, (2017) and Ibok, (2006) emphasized that the uptake of insurance as well as investment in insurance were determined by an insurer's capacity to promptly settle genuine claims. The Kenyan insurance industry has a reputation of a

cumbersome claims process where too many details are asked, payment takes a long time and full amounts are not paid. Administratively, there is room for improvement as policy documents are not delivered to the policyholder in a timely manner. Instances of little or no policy documentation are prevalent; as a result, policyholders have no contact with the policy document to ascertain the cover bought. In the health insurance segment, for instances, challenges abound: health service providers' costs have been known to increase without prior notifications to the risk carriers so the claims are much higher than expected causing the use of reserves or subsidies to cover claims payment shortfalls. In other cases, the health coverage lists of health providers, from whom an insured can access the service, provided by intermediaries are sometimes different from that of the providers causing client inconveniences and dissatisfaction in services. A customer's experience at a clinic can determine if a policy is continued, so then the quality of care and any other issues need of necessity ad priority be monitored closely. Inadequacies in capacity at some facilities have been known to pose difficulties in the insurance arrangements while favorable service turn-around period's foster better positive relationship with the clients and encourage service utilization.

In other areas, partners have been used to help with product development, administration, claims processing, training and negotiating deals with providers. This is all with the objective to enhance efficiencies wherever possible. Another common occurrence in the health insurance market is that the service providers charge more for services given to insured clients as compared to the uninsured so the client receives a lesser amount of services for the same benefit cost. A coordinated effort and continuous communication are needed to maintain a strong relationship and agreements on cost with the intermediaries and service providers.

Opinions vary as to which would be the best contact point. Some prefer dealing directly with the insurance company as some of the agents are not familiar with the coverage, others prefer dealing with the intermediaries owing to familiarity and proximity. Indeed, to ease up the processes and length of deliver timelines, the product needs to be specific to the group's needs so the client can find value in the purchase. Starting with simple products establishes familiarity and complexity can be added with time. In most scenarios, clients' perception about the insurance providers, for instance when asked to rate the worst and the best insurers, clients who give their feedback and explain their reasons cite that premium affordability, ease of access, prompt claim payment, being well advertised and well established are priority reasons for considering some providers as the best. For those insurers perceived as the worst providers, reasons usually cited include corruption scandals, charging high premiums and delayed or unpaid claims. Continuous customer contact and feedback helps build the relationship and better products for later on. On health insurance complains abound of poor service at the hospital as the insurance company would be known to take too long to pre-authorize treatment so the hospital would treat "cash" patients first. Some affiliated hospitals have been reported not to have proper facilities as medication was expired and long treatment queues were normal. Among other challenges with claims and health coverage, clients' experiences have been poor service when contacting the insurance company directly occasioned by long waiting times on the phone. It also seems the hospital billing systems are not standardized. Clients have experienced a drop in rates by approximately 50% when the hospital has discovered that the patient was not insured. Government hospitals are not preferred in some areas as there is poor drug availability. In such an environment of unfulfilling coverage, insurance uptake has proven slow; most potential insurance consumers would like their insurance to cover more services so they pay less out of their pockets. Most people wish more less

expensive hospitals were affiliated with the insurance plans, with expectation being that the affiliated hospitals will be good hospitals offering quality services. Assurance is needed, that affiliated hospitals will be able to provide the insured services required. Moreover, simplicity in the product design and process is necessary as clients have low insurance knowledge and there is low literacy in these areas. Considerable times, difficulties are experienced in the claims process as beneficiaries may not be aware of the policy, if they are, they may not understand the claims process. Even those that understand the process may find it difficult to access documents needed to process the claim.

Building insurance awareness takes time and can be expensive. The dictates of factors such as culture, history, and institutions trusted by people play out in determining what will work. Therefore, the policy and sales and servicing processes are different from other classes of insurance. Policies need to be easy to understand with minimal exclusions and the claims process must be easy and practical while still being affordable. What some providers view as "simple" is actually complex for the target market to understand especially if numerous products are offered to a market that is unfamiliar with the concept of insurance. Always keeping the customers in mind is important for successful uptake and this as well explains why demand studies are very important. Avoiding jargon and relating to the clients is important so marketing campaigns commonly involve theatre performance, songs, pictures, posters and metaphors rather than detailed technical explanations. Importantly, on claim payment, a group seeing a claim payment being made is a great contributor to sales as informal "Word of Mouth" is valued and trusted by the clients.

Furthermore, there is a lot of interaction involved when collecting premiums from the customers as well as the processes of claims settling and challenges in access and distance further complicate the processes especially for health services and making premium payments. Guiding clients through the claims process, collecting premiums and settling claims at group meetings are successful ways of accessing the clients in informal operations. Considering appropriate modes of payment given the possible irregular income patterns of the client or flexibility for late or missed payments are ways to accommodate the uniqueness of the market. Providers also need to give thought to how the claims will be settled. For example, if the client does not have a bank account, a Cheque will not be a suitable payment form. Access presents another challenge, for some classes' say, health insurance, as distance to providers especially in rural areas can be unmanageable. Addressing distribution challenges, some insurers have found out that utilizing existing networks for distribution is a more successful approach to reaching clients. Using a delivery partner such as a micro finance institution makes it simpler to reach clients, however the success to make actual sales is not always guaranteed. Insurance is in competition with the regular micro finance institution business and micro finance institutions struggle to justify the time needed to sell voluntary policies for low commissions so it is very important to choose good partners.

Capacity building on strong financial, management and administrative skills, trust and established contact with the clients, the desire to learn and train about insurance, commitment to the concept and values that are in line with alleviating financial burdens through insurance are quite important in achieving considerable product uptake. Continuous training is necessary to guarantee performance by the partner so plans need to be in place for how the intermediary will garner insurance knowledge. Insurance needs

to be a priority for the aggregator and this must be communicated to staff from top management. Finally, the marketing must be transparent and relates to the client so trust can be built.

Claim settlement takes into account timely reporting of the claim, proper documentation of the claim reported, and investigation of the claim and timeliness of payout of the claim. The assumption here is that once claims settlement is regulated, the public will gain confidence in the use of insurance products and thus make it easier for insurers to sell more products and therefore increase insurance penetration.

2.2.4 Theory of Distribution Channel

The key attributes of a good model of insurance distribution include but are not limited to: easy and efficient access to market, simple premium payment mechanism: Claims settlement and channel(s) must fit the client's lifestyle. In regards to selling or marketing of insurance, developing economies usually face he hurdles of operating in an atmosphere of distrust of the industry by customers. This is instilled by difficult to understand policies written in legalese or not the native language, lack of full disclosure at the point of sale, lack of quality assurance from service providers directly in contact with customers, difficult claims processes and delayed service delivery to clients because of lack of automation between providers and intermediaries.

In the resulting effect of a rapidly changing and unpredictable economic environment globally, the insurance industry has been in the receiving end of unprecedented changes. These changes within the financial markets point at the need for adoption of strategic means through which insurance can penetrate the market to the end optimal profits are viable (Manocha,2009). Moreover, Insurers who may be affected by the rest of the financial sector are mainly concerned by financial market developments. The insurers'

exposure to the economy fluctuation risks - where sensitivities are interest, inflation and exchange rates– is manifested in two different ways: commercial product and premium development and asset value and subsequent capital base and solvency levels. Insurers involve the major asset managers and because they have been exposed to recession, they also have a probability of benefiting from recovery. Historic data and predictions show economic progression through labor market and macroeconomic indicators which can highlight areas of growth returns and limitation, similarly, contextualized market which are potential for diversification of line. Income protection insurance may also realize a rise in demand. Players who are successful have leveraged on technology to achieve competitive pricing of products optimal valuation of risks. Moreover, the development of both the risk carriers and their taskforce of intermediaries on a global outlook is critical element in this mix. in days gone by, the role and use of technology has relegated to the promotion of the ordinary strategies of doing business, albeit with increasing ambition. The digital world also gives an access that is better at the prevention of loss. As well it offers a convenience that is greater and the possibility of creation of refreshed propositions reaching group of customers that are entirely new, via elevated partnerships and collaboration with other industries. More than ever, the need to optimize corporate value demands delivery of a fulfilling customer experience to the target consumers. Yet, on a wide scope, there are many insurance companies and intermediaries that still focus on product and channel differentiation instead of developing customer orientated values. This suggests the need for a transformation that is more than digital differentiation as this would represent a change that is significant businesswise.

Globally best practices in the distribution of insurance are to work with channels that are trusted by its clients, most of which are organizations, and have administration

capabilities for premium collection from the client independent of forwarding proceeds to the providers, as well as carrying out education to the client base effectively. This is to point out a new trajectory needful on the customer delivery side: increasing the capacity of the distribution channels (intermediaries) so they can independently administer and maintain databases of financial transactions create system linkages with the providers for ease of processes and improved efficiency. In ordinary practices key components of insurance business including administration, distribution, product development, creating product awareness and engaging partner like service providers are borne by the providers. There doesn't seem to be much of a difference between distribution methods in the urban and rural areas but continuous dialogues are needed with the providers and intermediaries to find out what is and isn't working with distribution. Moreover, a good product does not necessarily translate to demand and sales. There must be a concerted effort at continuous awareness and education as well as an active sales push that focuses more on relationship building than a closing a sales pitch.

The quest for the utilization of new and alternative modes of selling the product as such as banc assurance and the tapping into aggressive marketing strategies cannot be overlooked (Karunagaran., 2006). According to Schary and Skjott (2000) addressing the distribution challenges facing the financial markets globally calls for a supply chain, modeled in a manner that factors in adequate flexibility to accommodate diverse consumer needs and preferences as well as ability to achieve the benefits of a focused production. Black et al. (2002) pointed out that, over the stretch of the last decade, established economies have witnessed significant and rapid changes in the distribution modes for their goods and services. So then for businesses or organization desirous to

adapt to this change both in their home markets as well as the global platform have the daunting task of getting it right in regards to the choice of channels of distribution to employ. This is crucial because, succeeding in the home market is different when doing business across international markets; distribution channels get complex and dynamic in that they are crafted to cater to specific market niches. Furthermore, a long-term perspective is vital in the choice of distribution channels; a consideration into the sustainability of the channels, in retrospect of foreseeable future trends and their impact on business environments is important.

Neves et al. (2011) recommends distribution channels crafted with the consumers and relationships in mind, a strong construct of culture and social networks. As markets experienced continuous disruptions necessitating adaption, the choice of a product by a consumer is to a degree connected to the choice of the distribution channel, and as such a business making effort to understand the consumer choice of products have to focus on understanding reasons that inform choice of distribution channel. That said however, the motivation behind consumer product/service choice may not be easily explained by the product-channel interactions. For this reason, an opportunity for further study is available so as to evaluate and drawn insights on the best suited models to interrogate what informs consumers on their preference for a particular channel.

Therefore, there is a case for further research to consider the most appropriate framework for evaluating the determinants of consumer choice of channel. According to Black et al. (2002) choice of channel is highly influenced by the type of product. He offers that, to explain what influences consumer interest or involvement on a product, two factors play a key role; complexity of the product and the perceived risk associated with its purchase.

The choice of the distribution channels used takes into account the efficiency and the effectiveness of the channel used. The main distribution channels in Kenya are insurance agents, insurance brokers and direct selling by insurance companies. It is that the suppliers such as large insurance agents, pension administrators and insurance brokers have a significant say in the distribution turf in the sense that they control most of the business in the market and consequently they dictate the prices and commissions payable. The assumption here is that insurance intermediaries are professionally trained and licensed so that they are able to transact insurance business ethically. It's further assumed that their interaction with the market will boost confidence to consumers and so the availability of distribution channels is critical in increasing the rate of insurance penetration. That said it is apparent that the most critical aspect of insurance operation is product distribution. Even if the product is simple and affordable a distribution channel that isn't appropriate for the product and target market will diminish the scheme's success. Some organizations have concluded that the conventional insurance agency model is unsustainable so developing partnerships and investing in relationship building with service providers is essential in insurance.

The insurance business can be profitable if roll out is done well and proper marketing strategies are adopted as demonstrated by existing welfare groups. The key component of success in insurance distribution is that the insurance consumers need to be reached where they are as opposed to expecting them to come to the underwriter because despite most insurance product being designed for the mass market, it is critical to define the target market for focused distribution and marketing efforts. So then owing to the realization that reaching a high volume of customers is essential for insurance to be successful, some organizations have realized that the group selling methodology works

best as it reduces anti-selection and lowers administrative costs. In other instances, having an insurance specialist on the front line interacting with the clients is quite an effective sales strategy, especially for particulars unique products, for instance micro insurance, which is usually a target for emerging populations. As well, having local promoters, like village leaders, works better than the promotion carried out by the promoter who recruits going home to home. Still, with these strategies, some insurance schemes are discovering a lack of penetration in spite of having a captive market. Contributing to slow sales is also the lack of skills needed to professionally implement the Programmes, to diversify its activities and to develop the product knowledge needed to sell insurance. This contributes to some schemes experiencing a longer decision-making process to sell a policy.

The role of technology in distribution is becoming a game changer in the dynamics of insurance distribution. Although ICT is not fully embraced in the insurance industry, it has been successfully used by other financial institutions like banks with significant success rates leading to deepening of financial access. Notably, technological developments have created new channels of product and service distribution; high level of internet accessibility and speeds has opened up E-commerce opportunities, the social media has increased customer interaction to a global level, and facilitated the ability to address customer concerns online. Advanced insurance management systems that can quickly handle brokers and agents' and client issues online is a plus on the business front, paperless society made possible through document management system altogether facilitating new modalities of product distribution.Exploitation of emerging trends in technology and on the socio-demographic platform, reshaping products to meet local market demands while expanding presence into the international stage to build technical

proficiency will go a long way in competitively managing risks and maximizing opportunities (PWC 2012) In a nutshell, socially, the balance of power is shifting towards customers. Technologically, we are witnessing improvements in both software and hardware that manipulate large chunks of data to readily interpretable insights. Environmentally, there is a rise in more complicated risk analytics and risk underwriting mechanisms to address the intensifying frequency and harshness of catastrophic happenings. Penetration will be driven through targeting the consumers and crafting the product and services to attune to the preferences this way gaining a considerable pool of clientele.

As a response to the flexibility and to prompt access to services mobility required by consumers, the insurance industry will be obligated to focus on building capacity in the direction of information technology and specially mobile technology and real-time social interaction platforms, digital multimedia channels presenting relevant content and seamless transaction solutions (Kitur, 2015). Moreover, technology is an effective method of reaching large number of clients and performing the administrative functions at a low cost. Internal arrangements for distribution and partnerships to enable swift data transfers to the risk carriers, both for the management of individual clients as well as for the identification of productivity indicators and presentation of statistical data for modeling and forecasting behaviors and trends. The right systems need to be utilized in a timely manner and through right platform and structures because technology has the ability to facilitate or hinder insurance business. A key lesson is foresight on the side of the insurance companies to accommodate voluminous transactions in their channels, platforms and structures of operation and create interconnections for delivery, monitoring and evaluation of all operations. The assumption here is that when insurance

distribution channels are regulated; insurance products will reach consumers with ease, efficiently, reach large clientele and at minimum cost while at the same time affording cost-effective administrative cost to shareholders.

2.3 Empirical review

Kosovska, (2012) in a study covering fourteen countries in central and Eastern Europe found that the demand for life insurance is influenced by economic, demographic, social and institutional factors. This study didn't consider the regulatory aspects related to products, price, and distribution. The current study focuses on the institutional factors in the context of the four variables.

They argue that the government has the responsibility to step in and ensure that the insurance market is well regulated and in particular in the area of pricing of insurance products. The desired outcome is an accommodative, favorable and economically sound business environment even to the low earners in the economy and fairness to all industry players. However, this study didn't attempt to establish the effect of legislation on product development, distribution channels and claim settlement processes. The current study will seek to establish the cross relationships of the four variables.

In a study by Beenstock et al. (1988) sampling 12 countries across the global market for a period of 12 years, sought to find out the connection between insurance premiums for property liability and the disposable incomes of the policy holders. They established that increase in expenditure on insurance following a unit dollar increase in disposable income varied from country to country. As well insurance premiums for different countries vary same way as the interest rates. This underscores the significant connection between the decision for insurance consumption and the length of period to be on cover and the income levels of the consumer. Another study by Truett and Truett, (1990)

evaluated the trends of life insurance uptake in Mexico and the United States over a period of 20 years. The study was premised on the assumptions of the factors that dictate demand for insurance being such as cost, level of income, personal preferences, environmental dictates, and availability of alternative products or substitutes. The study further cross examined the growth patterns in the uptake against demographic variables such as age and the proportion of the population within a given age bracket as well as the level of education. Findings revealed that in Mexico, the demand for life insurance had a high elasticity among the high-income earners as compared to low-income earners population bracket. In addition to the level of income, findings revealed that the demographic factors evaluated i.e. age and education attainment significantly influenced the uptake of life insurance in both countries. A study within 45 countries on two separate periods, 7years apart, findings further added to the weight of affirmation that the degree of insurance uptake is highly dictated by income levels, and social security expenditures, with inflation negatively correlated to the dependent variable. Browne et al. (2015) introduced new variables on the evaluation of factors influencing the demand for life insurance including average life expectancy and enrollment level ratio of third level education. The two variables introduced were found to have inconsiderable influence on the uptake of life insurance, but when religion was introduced to the equation as a dummy variable, the results showed indifference for life insurance among the Muslim countries.

Still on the demand for life insurance, a cross-sectional analysis of 45 countries, taking into consideration nation-wide factors including agriculture production – determined by the proportion of the nation's labor force involved in this sector, access to health amenities hygiene practices including proportion of population accessing safe drinking water, proportion accessing higher education, country's level of economic development

influenced insurance products uptake (Outreville, 1996). The analysis indicated that individual financial development coupled with level of disposable income significantly influenced uptake of insurance.

Beck and Web (2002) conducted a study covering 68 countries globally, focusing on the causes of variance in life insurance uptake in the countries under study, while assessing independent variable touching on economic, demographic and institutional aspects, reported that countries with well-developed GDP and consequently high-income levels for its workforce, established banking industry, and low inflation rates have significantly high levels of insurance uptake. Moreover, interest rates and personal saving levels were reported to positively influence the consumption of insurance.

The study by Ward and Zurbruegg (2002) brought in a different dimension of explaining the demand for insurance disparities in different regions of the world: it reported that in the Asian Organization for Economic Co-operation and Development (OECD) countries, civil rights and political stability contributed positively to the decisions on consumption of life insurance.

Mulenga (2016) in his study of insurance penetration and growth in Zambia asserted that within the broad category of protecting and building organizations position there may be opportunities to gain market share, which is known as market penetration. Johnson and Scholes (1997) asserted that much of the activities like competencies which sustain or improve quality or innovation or increasing market activity could all be means of achieving market penetration. Mulenga (2016) further notes that most insurance companies felt that insurance regulation has contributed to the low rates of insurance penetration while regulators believe that regulation has enhanced insurance growth.

Whilst there exists practical factors that significantly influence the consumption and consequently the penetration of insurance – both life and non-life, the study didn't focus on the effect of regulatory frame work on insurance penetration. Rather the variable on regulatory framework was assessment of the feelings on the basis of whether broadly the respondents believed there was any effect or not on penetration. The current study will concentrate on the specific regulatory factors likely to affect insurance uptake.

Doherty and Kang (1988) point out the connection between prices charged on insurance products and interest rates: that any change in interest rate directly affects cost of insurance – reflected on current value of expected losses. In the event of a financial shock on the insurance market, insurance companies, to cushion against such constraints, easily increase the prices as opposed to injecting more capital to strengthen their asset base. Berry et al. (2012) found out that regulation on insurance practice actually affected the pricing of insurance; to say that in a regulated market, the factors that would dictate pricing of insurance products differ considerably from those in a price unregulated insurance market. Regulations on prices put capping on cost of insurance so that business is transacted within preset thresholds deemed competitive by the regulator and that flouting the set limits throws the market off an economically competitive footing. This study focused on whether regulation on pricing of insurance products affects insurance penetration.

Barros (1996) found out that firms conducted business competitively and changed market conduct after price liberalization in an unregulated market environment. Finsinger and Schmid (1994) also confirm that regulatory interventions significantly influence insurance price, market share and concentration. Regulation may result in greater risk taking and imprudent behavior by regulated financial intermediaries. Chache (2016) in

his research; A study of the Effects of Product Pricing on the growth of Micro Insurance by Insurance Underwriters in Kenya reported that a relationship exists between product pricing, the uptake and development of micro insurance in Kenya. The study also did a comparison, side by side, of two elements of the micro insurance products; the value and the awareness. Altogether, pricing was the biggest determinant of micro insurance uptake. In its conclusion, the study observed that growth can only be achieved if the micro insurance products a company offers are relevant, appreciated and in demand by the target market. This study did not however address the effects of price regulation which the current study will seek to address.

The IRA (2013) guidelines offer guidance to the market on pricing: that to arrive at the price of an insurance product factors including costs estimations for claims attaching, investment incomes drawn from the premium to be collected upon issuance of the product, and all other operational costs involved to underwrite the product. In the event a product is rolled out for sale and the performance in terms of revenues are different from the estimated revenue projections and estimations then a price risk occurs. In anticipation of all these dynamics, the regulator guides those insurers, while computing these estimations ought to anticipate and accommodate in-house and external ongoing reviews and restructuring, with consultations with actuarial expertise. This guide lines target all products but especially products that are complex in structure or are considerably big in size. Moreover, concerning pricing regulations it is guided that prices rolled out to the consumers should be sensitive and responsive to market disruptions and developments such as the profitability of the product within any given financial year once analysis of the performance of the insurer's balance sheet is done. Sheng-Chang et al. (2016) asserted that liberation of insurance product prices obligates the risk carriers to

lower rates. He analyzed effects of deregulation on growth of insurers – number wise, growth in premiums as well as overall business performance of the insurance industry in the Italian motor market. Their results indicated a decline in number of insurers following deregulation; this may in return affect market penetration and growth. The current study seeks to establish whether this is the case in the Kenyan market. Regarding regulated markets, related regulations fairly hinder premium grow Cummins, et al.,(2001), Jaffee & Russell, (2002) as cited in sheng-changetal (2016) study.

Canadian Institute of Actuaries (2008), a study on Life and Health Insurance Costing Products noted that insured and related parties are rational and embrace the product, the scope of cover, the products offers, as well as the benefits they provide. The market is witnessing an influx and relevance in concept-based sales. Importantly for actuarial modeling, knowledge of the product's marketing and distribution strategies comes handy when adjustments of the products are most needed within appropriate modeling assumptions.

IRA (2013) guidelines stipulate that fair treatment of customers encompasses achieving outcomes which shall include but are not limited to the design and selling in a way that is considerate of consumer preferences, views and concerns, plain and simple product information prior to its roll out, support information and services while the product is in the market, and complete description of product and what it covers including the benefits to the consumer. The researcher has not come across a study done on the influence of regulatory frame work on the penetration of insurance in Kenya

Ebitu, et al. (2012) found that insurance policy statement; accessibility and prompt payment of claims, insurance corporate image among others influence insurance consumption in Nigeria. The study focused on claim payment rather than claims

regulations and guidelines. Basaura (2017) also asserts in developed economies, the loyalty of consumers is highly influenced by timely payment of claims by insurance companies. Yadav and Mahonia (2014) focused on a grievance management segment and how it increases confidence and trust of policyholders towards the insurers.

A study on claims settlement Ratio of Life Insurance Corporation and other insurance companies in India (Kimani. & Saraswat 2014) showed that prompt and seamless settlement of valid claims is an important function of an insurance company and claim settlement is the integral part of claim management. It's a yard stick to judge the insurance company efficiency. This study did not however establish the impact of regulated claim settlement processes on insurance penetration. The Insurance Act Revised (2015) stipulates that valid insurance claims should be paid within 90 days upon admission of the claim. There is however no research done on the impact of regulatory frame work on claim settlement.

Dumm and Hoyt (2003) assert that insurers continue to make use of an assortment of distribution channels in a bid to accommodate the preferences and demands of diverse clientele while monitoring the distribution costs for their products and services. Brostoff (2001) asserted that the old model of agent driven distribution still remains a considerable part of insurers' distribution channels. Internet adoption is being seen as a support channel for general information on financial services product. Regan (1997) found that for those insurers in the market who offer relatively complex products depend heavily on independent agents for distribution. Bawa and Chattha, (2016) in a study on the performance of the life insurance segment distribution channels in India emphasized that in order to realize success in such line of business, diligent management of the distribution network played a critical role. He further noted that a unique system of

distribution yielded effectual and productive performance. Moreover, diversification of distribution channels offers insurers better chances of penetration and accessibility of their products. The study did not address the issues of regulation of distribution channels.

2.4 Theoretical Framework

This study is based on stakeholder's theory, utility theory, the theory of claims settlement and the theory of distribution channels. The theories indicate that, for a product to penetrate well in the market, the stakeholders of the firm need to set competitive prices which should be communicated well to the consumers using effective distribution channels. When consumers buy the products (in this case insurance cover), then their claims should be compensated on time in case the insured risk occurs. Based on these theories, the study has adopted a conceptual framework as discussed hereunder.

2.5 Conceptual Frame Work

Figure 2.1 presents the conceptual framework adopted in this study. The framework is borrowed from the stakeholder's theory, the utility theory, the theory of claims settlement and the theory of distribution channels. It indicates that penetration of insurance firms in the market can be affected by multiple factors such as price regulations, product regulations, regulations on channels of distribution and regulations on claim settlements.

Figure 2.1:

The Conceptual Framework of insurance penetration

Independent Variables   **Dependent variable**
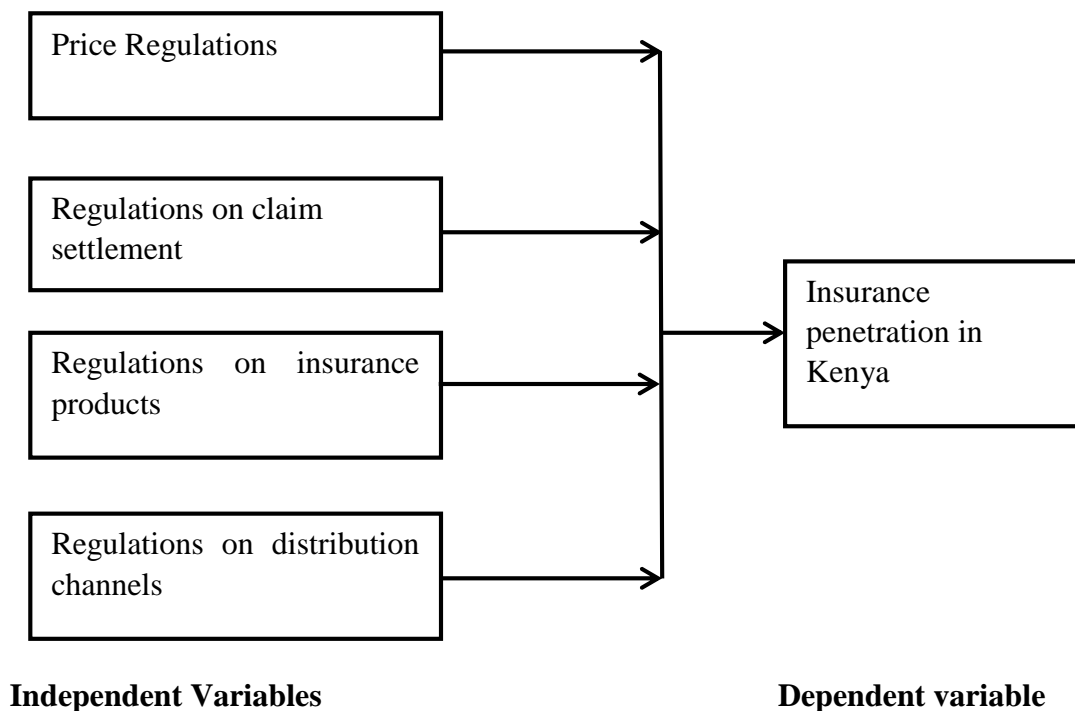
Source: researcher (2018)

Price Regulations

Kotler and Armstrong (2011) define price as the amount of money charged for a product or service, or the sum of values that consumers exchange for the benefits of having or using the product or service. In this research price regulation means setting a minimum price of insurance products by the government.

Claim settlement Regulations

The Insurance Act (2015) states that insurance claim is an official request by the insured to an insurer, asking for compensation in line with terms and conditions of the insurance contract. The claim is reviewed for validity and paid out to the insured. In this research, regulation of claims settlement means expectation by the regulator regarding paying the right amounts of claims without delay once the claim is admitted by the insurer.

Distribution Channels regulation

Kotler and Armstrong (2011) states that a distribution channel is a set of mutually supporting organizations that operate together to the end that a product or service is made available to the consumer or business user for their consumption. A distribution channel in insurance business means methods used by insurance companies to distribute insurance products. They include insurance agents, the internet or even direct selling to the clients. In this research, regulation of distribution channels by the government means the evaluation of the choice of distribution channels on issues like efficiency, cost and effectiveness in service delivery by the government.

Products Regulations

According to Jobber and Chadwick, (2013) a product is anything that is capable of satisfying customer needs. Product in insurance business may be a tangible product such as a financial loan or intangible product such as a life policy which is a promise to the policyholder.

Regulation of insurance products in this research means the analysis on insurance products by the industry regulator to assess the effect of the approval process on the speed of the market entry and thus insurance market penetration, what parameters influence approval of products to be introduced; consider features that will influence uptake of products such as compatibility with needs and level of technicality of the products in relation to consumer needs.

Figure 2.2:

Operational Framework

```
┌─────────────────────────────┐
│ Price regulation            │
│                             │
│   • Price listing           │
│   • Minimum and maximum     │
│     prices                  │───────────┐
│   • Price change process    │           │
│                             │           │
└─────────────────────────────┘           │
                                           │
┌─────────────────────────────┐           │
│ Regulation on claim         │           │
│ settlement                  │           │
│                             │           ▼
│   • Time lines              │───────────►
│   • Arbitration of disputes │
│   • Claims reports/evidence │        ┌──────────────────────────────┐
│                             │        │ Insurance penetration        │
└─────────────────────────────┘   ────►│   • Premium growth           │
                                        │   • Percentage of life       │
┌─────────────────────────────┐        │     insured                  │
│ Regulation     on           │        └──────────────────────────────┘
│ distribution                │
│ channels                    │───────────►
│                             │
│   • Agency appointment      │
│   • Requirements for        │
│     various distribution    │
│     channels                │
│   • Distribution platforms  │
│                             │
└─────────────────────────────┘
┌─────────────────────────────┐
│ Products approval           │
│                             │
│   • Number of products      │
│   • Types of products       │
│   • Expected life cycle of  │───────────►
│     products                │
│   • Structure of ownership  │
│     of the organisation     │
│   • Products capability to  │
│     satisfy                 │
└─────────────────────────────┘
```

Independent Variables

Source: researcher (2018)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the research design, the target population, sample design and sampling technique adopted in the study. Data collection methods and instruments are also extensively discussed. The chapter provides a description of the methods of data analysis and ethical issues to be addressed in the study.

3.2 Research Design

A Research design entails procedures and conditions that govern data collection and data analysis (Kothari, 2004). The study adopted a descriptive research design. According to Cooper and Schindler (2006) a descriptive study establishes the what, where and how components of a phenomenon are explained. As well, using this design, the findings are generalizable to a larger target population. Descriptive studies represent a precise summary of people, occurrences or situations, relating the existing conditions and attitudes through observation and interpretation techniques (Chandran, 2004). It enables a researcher to collect quantitative data and subsequent quantitative analysis of that data whose output is descriptive and inferential statistics (Saunders et al 2003).

3.3 Target Population

According to Cycyota and Harrison (2006) surveys can be a strong tool because, when done properly, they allow a researcher to generalize their study findings to a bigger population through utilizing a specific population. The target population is the larger group to which one hopes to generalize or apply their findings. The target population in this study comprised of unit managers and marketing managers of each of the 55

registered insurance companies within Nairobi (IRA, 2017) Thus, the target population was 110 managers of the registered insurance companies within Nairobi.

3.4 Sampling Procedure

The research targeted all the unit managers and marketing managers of the 55 licensed insurance companies in Kenya. Thus, the study used census method.

The choice of the cadre of employees is made on the acknowledgement that managers are the ones concerned with compliant implementation of regulation guidelines regarding product distribution, product design, marketing strategies, management of agents and brokers within their intermediary network, and as well upholding the business operations requirements by the regulator in line with provisions of the Insurance Act at a functional level. Moreover, they are responsible for the implementation and operationalization of their employer's business strategies.

3.5 Instrumentation

Data collection tools are the instruments through which the needed information for a study is acquired (Mugenda & Mugenda, 2003). The data was collected from insurance companies using questionnaire forms. For the purpose of this study, the questionnaire had two sections. Section one focused on collecting the demographic traits of the target respondents, while section 2 had questions drawn from the four variables under study. The questionnaire was structured according to the objectives of the study.

3.6 Methods of Data Collection

The questionnaires were administered mainly through a dropping and picking method so as to guarantee a significant response rate. Study had proposed one (1) week for data collection and therefore data collection took one week.

3.6.1 Pre-testing the Instrument

The research instrument was pre-tested to refine the questions before the actual data collection exercise. A pre-test was done on a selected sample respondent selected at random from the selected insurance companies. The purpose of pre-testing was to assess respondents understanding of the questions and ability to respond to questions thus improving the instruments in order to enhance the quality of the tool (Mugenda & Mugenda, 2003). Pre-testing serves the purpose identifying insufficiencies in the data collection tool with the aim of improving the instrument.

3.6.2 Validity

According to Cooper and Schindler (2006) validity enables researcher to measures the degree to which the sample represents the attributes that the test is designed to appraise. Content validity was employed in this study to measure the extent of representation of the subject under study, as probed through the data collection tool. Validity was enhanced by engaging the supervisor and experts as supported by Cooper and Schindler (2006) to appraise the questionnaire substance on its relevance to the content and to establish all the probable areas that need adjustments if any so as to achieve the desired study objectives.

3.6.3 Reliability

To achieve acceptable reliability thresholds, similar items being measured within an instrument need be increased as well as the use of varied samples for the same target population while using standardized measuring procedures. In order to test the reliability of the instruments, Cronbach's Alpha co-efficient, which is an internal consistency measure, was computed. A Cronbach Alpha co-efficient of 0.7 or higher was regarded as an indicator of good reliability (Cramer, 2011).

3.7 Methods of data Analysis

After data collection, data analysis was done. This process is important as it makes data sensible. Statistical Package for Social Sciences (SPSS) version 21 was used to analyze the data. Data collected was analyzed using descriptive statistics including mean, frequency, standard deviation and percentages to profile sample characteristics and major patterns emerging from the data. Inferential statistics to be computed provided procedures to draw inferences about a population from a sample. In this study multivariate logistic regression model was used to determine the relative importance of each of the four independent variables with respect to insurance penetration in the Kenyan market.

Logistic regression is defined as;

$$f(p) = \frac{1}{1+e^{-p}} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots 1$$

Equation 1 can be simplified as

logit (p) = b_o + b_1X_1 + b_2X_2 + b_3X_3 + …… + box …………… 2

Where:

p = probability of presence of the characteristic of interest

b_0 = representation of the reference group

b_1 = the regression coefficients associated with the reference group

$X_{1....n}$ = explanatory variables

Logistic regression was utilized because the dependent variable is binary in nature.

3.8 Ethical Considerations

The researcher obtained an authorization letter from the University and a research permit from NACOSTI before undertaking the data collection exercise. Respondents were assured that the information gathered will be solely be used for the purpose of fulfillment of the researcher's academic requirement. The respondents were not required indicate their names on the questionnaire and the data collected from them will not disclosed to other parties. Each respondent was made aware of the nature and purpose of the research. Respondents were assured of anonymity of their responses. Undertakings were made to the authorities involved that no information will be made public without prior consent.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results of data analysis. The chapter starts by presenting the response rate and the reliability test results of the research instrument. Descriptive analysis of the study population is then presented. The chapter ends presenting the results of hypothesis testing.

4.2 Response Rate

The study targeted a sample of 110employees of insurance companies comprising of 2 respondents drawn from each of the 55 insurance companies in Kenya. As a rule of thumb, response rate of 50% is considered adequate for analysis and reporting, a response rate of 60% is good and a response rate of 70% and above is deemed excellent. Out of the 110 questionnaires issued to the respondents, only 86 of them were filled correctly and returned making the response rate to be 78.2%. Thus, the response was sufficient to warrant data analysis, interpretation and drawing of conclusions.

4.3 Reliability Analysis

Reliability is a measure of the degree to which research instrument yields consistent results if repeated many times. Reliability of the research instrument was ascertained by computing Cronbach's alpha coefficient. For all the items, the Cronbach's alpha coefficient was above 0.7 indicating that the research instrument was reliable.

4.4 Demographics Characteristics of the study population

The study gathered information relating to the demographics of the respondents including age, sex, education level, professional qualification, with the insight that these factors possibly influence the respondents' perceptions, and opinions. The results of the analysis are as presented

4.4.1 Gender

The study sought to determine whether there exists gender disparity in the management of insurance firms. The results are indicated in table 4.1.

Table 4.1:

Gender of the respondents

Gender	Frequency	Percent
Female	56	65.1
Male	30	34.9
Total	86	100.0

As shown in table 4.1, majority of the unit managers were Female (65.1%). Only 34.9 percent of the respondents were male. This indicates that more women than men are in top management in insurance firms in Kenya

Table 4.2:

Age of the Respondents

AGE GROUP	FREQUENCY	PERCENT
18-35	55	64.0
36-60	16	18.6
OVER 60	15	17.4
TOTAL	86	100.0

As shown in table 4.2 most insurance companies are headed by dynamic and youthful managers (64 percent)

4.4.3 Respondents Professional qualification.

On the subject of professional qualifications specifically on the insurance field a majority (69.8%) of the respondents had indeed acquired such qualifications. This implies that, they were well versed in matters of insurance.

Table 4.3:

Professional qualifications

Insurance Professional Qualification?	Frequency	Percent
Yes	60	69.8
No	26	30.2
Total	86	100.0

Table 4.4:

Position in the company

Position in the company	Frequency	Percent
Unit Manager	51	59.3
Marketing Manager	35	40.7
Total	86	100.0

As shown in table 4.4, the largest proportion of the respondents (59.3%) was drawn from the unit managers. These are the managers in charge of insurance intermediaries – specifically the insurance agents; it is approximated that at least 4500 insurance agents operate within Nairobi County. Managing such a number is insightful in regards to articulating issues that concern insurance uptake and consumption patterns and performance of different classes of the insurance business.

4.5 Descriptive analysis of the study variables

4.5.1 Performance of Insurance Classes

The findings revealed that insurance business (both life and general) has been on an upward growth trend in all insurance companies sampled. In particular, the general segment of insurance business has registered a proportionately bigger growth index, and that so in the context of insurance penetration in the county, compared to its life counterpart.

Table 4.5

Comparative growth in the insurance business; class wise.

Class of Insurance	Frequency	Percent
General	67	77.9
Both	12	14.0
Life	7	8.1
Total	86	100.0

4.5.2 Insurance Regulation:

The regulated entities are insurance companies, reinsurance companies, intermediaries (brokers and agents) and other service providers. The supervisory role spans some of the areas that this study was concerned itself with namely pricing, claim settlement, products and distribution channels. Results of the analysis are as presented.

4.5.3   Price Regulation.

The study findings revealed that, as far as pricing regulations are concerned, aspects such as, price listing, price changes processes, capping on insurance prices as per industry regulator's guidelines, all have impact on insurance penetration. Table 4.6 provides the statistics, on price regulation, from data collected. (Scale used is 1-5: 1=strongly agree, 5=strongly Disagree). In varying proportions, as tabulated in table 8, the highest mean is below a 2-point index representing a strong agreement with the statements in regards price regulation as a whole, significantly influencing the penetration of insurance in the country. Therefore, if prices are regulated, the insurance uptake will increase hence increase insurance penetration.

Table 4.6:

Price Regulation.

Statements on price regulation components	Mean	Std. Dev
The price regulation models adopted within the regulatory framework significantly influence insurance penetration in Kenya	1.92	0.800
Price listing in insurance price regulation affects insurance penetration in Kenya	1.92	0.857
Setting of minimum and maximum prices of insurance products affects insurance penetration in Kenya	1.51	0.628
Price change processes of insurance products within the regulatory framework affects insurance penetration in Kenya	1.43	0.660

4.5.4 Claim Settlement Regulation

As per table 4.7, the mean indices for the four statements touching on claim settlement regulation, have a score of a mean of 2.67 that indicates that majority of the respondents consider regulation on claim settlement significant in influencing the penetration of insurance in the country.   Therefore, the study shows that if claims settlement is enhanced then insurance uptake will increase simultaneously increase insurance penetration.

Table 4.7:

Claims Settlement Regulation

Statements on claim settlement regulation components	Mean	Std. Deviation
Regulation on claim settlement timelines affects insurance penetration in Kenya	2.67	1.359
Regulation on arbitration of claim disputes affects insurance penetration in Kenya insurance penetration in Kenya	1.99	.660
Regulation on claim settlement - claim reports/evidence affects insurance penetration in Kenya	1.67	.804
Regulation on timely update on claims affects insurance penetration in Kenya	1.64	1.167

4.5.5 Regulation on distribution channels

Results tabulated in table 4.8, on regulations touching on licensing and approvals of distribution channels have the greatest influence on insurance penetration. The mean index of 1.99 shows that the respondents strongly agreed that insurance distribution channels play a major role in insurance uptake and therefore if they are regulated they will increase insurance uptake and therefore increase insurance penetration.

Table 4.8:

Regulation on Distribution Channels

	Mean	Std. Deviation
The regulation on agency appointment in distribution channels affects insurance penetration in Kenya	1.99	1.410
The regulations spelling out mandatory requirements for various distribution channels affects insurance penetration in Kenya	1.62	.870
The regulations on licensing and approval of various distribution channels affects insurance penetration in Kenya	1.58	0.900

4.5.6 Product Approval Regulations

The results of the study on product approval regulations had a mean index of 2.4 showing that the respondents agreed that regulation provisions of type of products offered by the insurers affect insurance uptake and will increase insurance penetration.

Table 4.9:

Regulation on Product approval

	Mean	Std. Dev.
The regulation provisions on type of products to be offered by an insurer affects insurance penetration in Kenya	2.24	.612
The regulation provisions on the expected life-cycle of products offered in the market affects insurance penetration in Kenya	2.19	1.297
The regulation provisions on suitability (capacity to satisfy needs) of products offered in the market affects insurance penetration in Kenya	1.88	.900
The regulation on structure of ownership of the insurance entities (insurers, Brokers, Agents, MIPS, Reinsurers etc.) affects insurance penetration in Kenya	1.83	.536

As per table 4.9, the mean indices on all four aspects of regulations on product approval indicate that indeed these regulations influence the uptake of insurance in the country. Seemingly, the ownership structure of these insurance industry players (insurance

companies, Brokers, Agencies, Medical Insurance Providers) is of keen interest to the consumers of insurance, scoring a 1.83 point on the scale representing a high agreeableness to the influence on product approval regulations on insurance penetration. Probing collectively on the regulatory framework, regulations touching on the four areas of interest to the researcher in regards to insurance penetration.

Table 4.10:

Factors that influence insurance penetration in Kenya

Other factors that influence to insurance penetration in Kenya	Mean	Std. Dev.
Relevant and market sensitive insurance products	1.08	.275
Customer service standards	1.12	.322
Consumer education or awareness	1.17	.382
Improved distribution channel	1.34	.476
Perception of the insurance industry	1.36	.483
An enabling regulatory framework	1.47	.747
Innovation and use of information technology	1.50	.628
Review of pricing	1.77	.477

Additionally, tables 4.10, other significant factors besides an enabling regulatory framework are tabulated in rank and magnitude of influence. From the research data the role of relevant and market sensitive products in influencing insurance uptake is established mean of 1.08. Notably, underlying these responses, it is apparent that a number of factors do contribute to the current perception state of insurance and insurance services that are lowly penetrating mostly for the low-end market within which majority of Kenyans fall in. As has been the discussion throughout this study, issues touching on insurance uptake revolve around information, perception, processes, costs and products.

To say that insurance consumers often times grapple with a lack of trust for the insurers, known for non-payment of claims or very complicated and tedious processes in order for a claim to be paid, insufficient familiarity with and lack of insurance products that are relevant in that the information that is mostly available in the market is of less value and not complete or insufficient for customers to make risk management decisions that are valuable, noticeable unavailability of suitable products for the markets that are of low-income, the available data in the market is usually not reliable due to incompleteness therefore customer are not able to make valuable risk management decisions. Moreover, there minimal engagement and little awareness from insurance companies so that the informal market is largely oblivious of insurance and consider it as a preserve for the rich. To a considerable degree, the role of government in regards to insurance uptake includes adequately facilitating an inclusive business environment and avenues for fostering a growing insurance penetration.

Table 4.11:

Regulations and the regulatory framework.

	Mean	Std. Dev
A sound regulatory framework facilitates business growth	1.70	.971
Regulations on insurance pricing influence insurance penetration	1.58	.659
Regulating insurance distribution channels impacts insurance penetration	1.58	.901
Approval of insurance products by the insurance regulator is good practice for the market	1.37	.614

4.6 Hypotheses Testing

The study sought to establish the effect of regulatory framework on insurance penetration in Kenya. To achieve this objective, several hypotheses were formulated and tested at 5% level of significance using the logistic regression model. Logistic regression is appropriate when the dependent variable is dichotomous as it the case in this study. Results of the analysis are as presented in Tables 4.12, 4.13, 4.14 and 4.15.

Table 4.12:

Omnibus Tests of Model Coefficients

	Chi-square	Df	Sig.
Step	24.788	4	0.000
Block	24.788	4	0.000
Model	24.788	4	0.000

The omnibus test of model coefficients shows the significance of the predictive capacity of the model when independent variables of the study are considered as a block. It can be observed in Table 4.12 that the $p-value$ of the model as a block was $p<0.00$ which was less than 0.05. This implies that the model has a significant predictive capacity.

Table 4.13:

The Model Summary

-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
13.792[a]	0.486	0.760

Table 4.13 shows that the model predicts 76 % of the variations in insurance penetration in Kenya. This implies that there is still room for further studies on insurance penetration given that there is 24 % of variations in insurance penetration which is still unexplained as per this study.

Table 4.14:

Hosmer and Lemeshow Test

Chi-square	Df	Sig.
3.788	8	0.867

Hosmer and Lemeshow Test measures whether the model is fit for prediction with the null hypothesis that the model is fit against the alternate that the model is not fit. Table 4.14 shows the chi-square results, where $\chi^2 = 3.788$, p=0.867. The null hypothesis is not rejected. This implies that the model is fit and possesses significant predictive capability.

Table 4.15:

Multivariate logistic regression results

Variables	B	S.E.	P – value	Odds Ratio
Price Regulations:				
There is price regulations (reference)	-	-	-	1.000
There is no price regulations	0.734	0.359	0.044	2.083
Regulations on claim settlement:				
There is regulations on claim settlement (reference)	-	-	-	1.000
There is regulations on claim settlement	0.715	0.321	0.028	2.044
Regulations on distributions channels:				
There is regulations on distribution channels (reference)	-	-	-	1.000
There is no regulations on distribution channels	0.090	0.150	0.032	1.094
Regulations on insurance products:				
There is regulation on insurance products (reference)	-	-	-	1.000
There is no regulation on insurance products	0.003	0.166	0.048	1.003

4.6.1 Hypothesis on Price regulations

The results indicated that price regulation significantly influences insurance penetration in Kenya. The odds of insurance penetration would be 2.083 times more with no price regulations than when there were price regulations. The results were significant at 5% level.

4.6.2 Hypothesis on regulations on claims settlement

Further, the result shows that a regulation on claims settlement is significantly associated with insurance penetration in Kenya. If there were no regulations on insurance claims settlement Insurance penetration would be 2.044 times more than if there were regulations on claims settlement. The results were significant at 5% level.

4.6.3 Hypothesis on regulations on distribution channels.

The results further indicate that regulations on distribution channels are significantly associated with insurance penetration in Kenya. In absence of regulations on distribution channels insurance penetration would be 1.094 times more than it is when there are regulations on distributions channels. The results were significant t at 5% level.

4.6.4 Hypothesis on regulations on insurance products

Lastly the result shows that regulations on insurance products are significantly associated with insurance penetration in Kenya. If there were no regulations on insurance products, Insurance penetration would be 1.003 times more than if there were regulations on claims settlement. The results were significant at 5% level.

From Table 4.15, it can be observed that all the variables had a significant influence on the insurance penetration in Kenya. It can be inferred that regulatory framework plays a significant role in

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The present study's primary focus was to find out the impact of regulatory framework on insurance penetration in Kenya. Specifically, the study evaluated the impact of regulations touching on pricing of insurance products, claim settlement, product approval and distribution channels. This chapter provides a summary of the study findings in line with the specific objectives and draws conclusions from the findings and puts forward recommendations

5.2 Summary of the study

The study focused on the Impact of the Regulatory Framework on insurance penetration in Kenya. A study of all registered insurance companies in Nairobi County. Low insurance penetration in Kenya has exposed the country to financial losses of both lives and property to risks that are insurable such as death, accident and fire. The country has also experienced loss of financial support to individuals and businesses' as of insurance products are designed to compensate policyholders on occurring of insured risks. This phenomenon, has also contributed to the failure of Kenyan Government to sufficiently borrow domestically. The objectives of the study were to determine and establish the effect of regulation on prices of insurance products, claims settlement processes, distribution channels and suitability of products.

The study conducted three hypotheses testing namely: Omnibus tests of Model Coefficients, the Model Summary by Hosmer and Lame show tests to establish; the significance of the predictive capacity of the model, percentage of variations of the

variables in the study and the fitness of the study for prediction respectively. The scope of the study covered the 55 registered insurance companies in Nairobi County and the sample size was 110 mangers – 1unit manager and 1 marketing manager in each insurance company. This study was based on the following theories; Stakeholder's theory, Utility theory, Claims settlement theory and Theory of distribution. The study employed descriptive theory and study findings were generalized to all counties in Kenya. The study used questionnaire forms to collect data. The collected data was analyzed by using Statistical Package for social Sciences (SPSS Version 21) and Multivariate Logistic regression Model to determine the relevance of the four independent variables. The study findings showed that the Government should enhance price regulations on insurance products, regulate suitability of insurance products offered in the market, regulate insurance channels of distribution and finally regulate claims settlement processes.

5.3 Effects of Price Regulation on Insurance Penetration in Kenya.

The Vision 2030 blue print GoK, (2007), in its financial inclusivity agenda, highlights the need for enhanced access to insurance at affordable prices to the consumers of insurance, with a keen interest on the bottom poor and low-end market population segment. The findings reveal that, insurance regulations touching on prices and pricing of insurance products impact insurance penetration by directly influencing the uptake of these products. Comparatively, the aspects of pricing outlined by the researcher had close scores in regards to their influence on insurance penetration. Of these four aspects; price regulation models adopted within the regulatory framework, price listing, setting of minimum and maximum prices of insurance products, and price change processes of insurance products within the regulatory framework, as provided for in table 4.7, the

aspect on price change processes had the highest score (mean of 1.43) representing a ´strongly agree´ inclination with a majority of respondents. The pricing matrix for insurance products is usually a tight and delicate balance between many competing variables: setting the premiums too high is likely to result to a low uptake of the product because of product will be perceived as high-end and beyond reach to most consumers. Moreover, the cost opportunity will weigh down on the utility aspect and especially for the low income earners of the economy. Additionally, if the uptake of these products is low and does not improve within a given period of time, the critical mass scale will not be possible hence sustainability of the product in the market will be untenable. Interestingly, this scenario sets in the stage for increased anti-selection of these products in that an over-priced product will only attract consumers who continue to see value in it. For instance, it will be taken up by those more likely to claim while lower risk insurance consumers will incline towards better value products, if they are on offer; otherwise, they may not buy insurance at all. Moreover, some products are definitely more affordable than others so providers are make considerations to target population in the product design and premium calculation by offering less expensive coverage's which may be more desirable. For instance, property insurance is quite expensive; the product packaged however as Property/Life bundle is quite affordable. Another vital consideration is segmentation of the population in regions and economic cadres; costs and needs vary by region, economic classes, and other parameters, therefore regulatory framework has to accommodate this variance in a manner that providers have the flexibility to adjust products as appropriate. These finding underline the need for appropriate pricing of products as well as management of the licensed entities (companies and intermediaries) to the end that they are less prone to collapse. On the other side of the coin in regards to insurance pricing and the role regulations play, low

premiums will not pool to the thresholds requisite for profitability; the premiums collected will not be sufficient to cover claims and other expenses, leading to poor financial outcome for the insurer. The insurer may be forced to adjust the prices upwards to remain operational and profitable for the short term to correct inadequate pricing and maintain solvency. The trouble with increase in prices is reduction in business volumes; it is possible that customers will either cancel their policies or opt not to renew them upon lapse of cover period. For the insurer investments already made in marketing and sales and other operational expenses are lost. On a large scale this market disruption in prices has the potential cast the insurance in bad faith and loss confidence in the insurers by the consumers is high likely.

5.4 Effects of regulating claims settlement on insurance penetration in Kenya.

The collapse of a number of insurance companies in the Kenyan market over the last two decades including Standard Assurance, Access Insurance, Kenya National Assurance, Stallion Insurance, Lake Star Insurance, United Insurance, Liberty Insurance and Blue Shield, has necessitated the insurance regulator to respond in the direction of crafting a robust regulatory framework. This framework addresses industry setbacks (including collapse of insurers), unprofitability of business with numerous cases of fraudulent claims, unstructured claims that complicate the determination of correct costs for the settling a given claim. This exposes the processes to prejudices judgment and fraud. The regulations sought to tighten the supervisory leash on industry players by addressing pertinent component within the insurance companies' operations such as risk management functions, actuarial functions, compliance functions and an internal audit function. The present research findings affirm that regulations on claim settlement significantly influence the penetration of insurance in the country. In particular,

regulations that demand the insurer to provide timely update on claims lodged by insured's and on periodic claim settlement reports and evidence for public consumption, had the highest scores on influencing penetration of insurance in the country. For instance, reporting would indicate the claims ratio for products offered on the market; the claims ratio is a good indicator of customer value, service and profitability. Low insurance claims ratios could be indicators of excess profitability, low customer awareness and understanding of their policy, low client value, high exclusions or a cumbersome claims process. High ratios can be a sign of adverse selection and very low profitability. If unusual claims ratios persist it can also be an indicator of unsuitable pricing. The Expense ratio is another Key Performance Indicator that shows operational efficiency and potential profitability and the regulations have set parameters which to gauge the soundness of the products in circulation. These findings point at the quest for consumer confidence in the Kenyan market that continually needs to be addressed as well as the considerable potential for growth within the general and life insurance segment, which largely depends public perception on the insurance industry.

5.5 Effects of regulating distribution channels on insurance penetration in Kenya.

The research findings highlight the influence of minimum standards for proper conduct by the intermediary in the performance of their duties which aim at fostering best practices and consequently a positive image in the conduct of insurance business and the role mandatory requirements for intermediaries, inn enhancing professionalism and consumer protection, in insurance penetration. Similarly, of the numerous supervision guidelines, the insurance regulator has been keen on enhancing corporate governance. Beyond the licensing of Insurers and intermediaries (common distribution channels) within which disclosures of information relating to an insurer's capital strength, risk

exposures and risk assessment, the guidelines focus on the element of corporate. In an earnest drive to foster a positive image of the insurance industry, booster public trust and insurance uptake in the industry, the regulator recognizes and considers the role and conduct of the intermediaries critical to the growth of the industry. In its guidelines for the intermediaries, who form the distribution channels, the regulator encourages a continued business relationship pre- and pro sale of products and execution of business contracts. Additionally, a demand in placed on the intermediaries to conduct their business in honesty, trustworthiness and professionalism in all their interactions with the policy holders. Globally, it is observed that insurance education and customer awareness are an essential part of the insurance sales process. In areas where insurance knowledge is low, education needs to be presented continually in forms that the client will understand; in their language, using pictures, no insurance jargon and presented in descriptive forms that the client can relate to. To retain the policy and help encourage renewals, customer awareness needs to be ongoing. Information around the policy, coverage and claims procedures helps the client understand the concept of insurance and how it can be of value to them. Some forms of awareness creation popular with and effective modes, clients in many regions include entertainment designed to explain the products in the form of dramas or comedies or videos in the local language. Leadership forums also present a good opportunity to increase awareness. Fliers, brochures, TV, radio, tutorial cards, posters and SMS messages are commonly used to spread insurance knowledge. Increasingly, providers are becoming aware of the clients' preferences; the target market is not easily accessed through conventional methods and so to avoid high acquisition costs there are keen on identifying effective distribution channels. Conventional sales staff typically don't relate well to the low-income market. This coupled with the market's lack of trust of the typically high-income market insurer along

with lack of insurance awareness and education creates an environment where new sales models are required. The current alternative in the low-income markets are social structures where people come together and incase of any risk they contribute and indemnify. Therefore, many potential clients are not convinced to transfer the risk to insurance which only addresses the risk element but not the social aspect e.g. weekly contact meetings say for prayers, etc. It then necessitates insurance providers to concert efforts towards increasing awareness and provision of insurance education as clients do not understand the products. For some essential products like credit life, insurance is just seen as an added cost. Clients do not necessarily see the value. Leveraging on the offerings of information Technology as a promising alternative in insurance distribution cannot be overlooked. Examples of changes from conventional insurance distribution modes that have helped to simplify the administration of insurance are using mobile phones for payments, having non paper based products, web access for policy inquiries, issuing a master policy to the group with simple ID cards to policyholders, translating documents, education and awareness into local dialects and simplifying the claims verification process to requiring only few, say tree (3), easily accessible documents to shorten the claims processing and payment time, just to mention. It is also important for service providers like hospitals, in the case of health insurance, to invest in installation and deployment of all the required technology and equipment that is linked to the administration system. Finally, finding a way for clients to swiftly receive service when required through a call Centre has been beneficial to similar financial organizations.

Noteworthy, the right access to information so as to enable consumers make informed choices and receive optimal utility benefit from their purchase is consumer's fundamental right enshrined in Article 46 of the Constitution of the Republic of Kenya.

This right has been upheld in the guidelines by the regulator touching on intermediaries. Improved access points to insurance are needed so people know where they can purchase a policy. Stronger partner agreements are needed with the access points such as hospitals or healthcare centers, in the case of health insurance, for instance, to ensure cost efficiency and service quality. Importantly, transparency is required by agents and insurance companies in regards to coverage and exclusions. Clients require up to date policy documentation. Driven by the objective of addressing increased cases of fraud and mismanagement, the regulator has increased the monitoring of all licensed insurance players with an emphasis, on the one hand, to a strong corporate governance approach for insurance companies through increased involvement by the board of directors, board committees as well as support functions, and on the other hand, well defined ownership structures, professional qualification of the principal officers running the intermediaries, reporting and submission of audited financials. The insurance industry regulator, in issuance and implementation of the industry guidelines is awake to the fact that the conduct of the insurance intermediary, who is the face of the insurer in the insurance market, is pivotal to increased penetration of the insurance business.

5.6 To identify the effects of regulating insurance products on insurance penetration in Kenya.

In regards to regulating insurance products, the industry regulator has been keen to guarantee suitable pricing of products coupled with prudent management of underwritten risks. The goal is to ensure that insurance companies are not exposed to malpractice or insolvency. Additionally, with the same goal in mind, the regulatory framework seeks to rid the Kenyan market off the setback of insolvent insurers through regulations that address prudence management and adequate capitalization. Price Water Coopers, in its

report asserted that *the changing face of insurance regulation*, envisions that many of the regulatory developments in Kenya's insurance regulatory environment are for the good of the industry; positive impact is guaranteed in the long run. Just to name, innovation, consolidation and adopting international best practices in supervision and regulatory compliance, has the potential to make the sector more attractive to investors. Enhancing the regulatory framework, though costly and time constrained, has the expected yield in increased consumer confidence in insurance products in the course of time. From a demand perspective, clients do want insurance products, in many instances health, however they are also unfamiliar with the concept of insurance, how it works and insurance trust levels are low. Implementing regulations that address the simplest products (Credit Life, Term Life, Accident, and Savings) first and gathering lessons from these while educating and building trust with the clients before tackling the most complex products is a better recipe for success. The findings highlight that, regulations addressing suitability of products, ownership structures of the entities providing the products to the consumers had the highest influence on the penetration of insurance in the country. One product doesn't fit all in the country. In particular, the aspect of product development need o factor in dynamics of the target markets; the low-income market requires short term, low premium products that appeal to the mass market. Initial low premiums for the target mass may not cover fixed and administrative costs and generally offer poor value to the customer. To this end thus there is a need for simple underwriting requirements which is more inclined as an alternative to the conventional insurance, which easily resonates with and is a preserve for the high-end market segment. It's difficult to develop products that really cater for the needs of the mass market or poor people as the underwriters do not easily agree to change the terms from the ordinary policies and as well, owing to insufficient data for this market segment which makes pricing a more

onerous task, regulations have a very critical role to play in ensuring prudential pricing. Additionally, the study findings point out that dedicated corporate governance structures are assured to yield positive influence on insurance consumers as well as a significant increase in investor confidence and a boost in the general public perception on the insurance industry.

5.7 Conclusion

The Insurance Regulatory Authority (IRA) has done exemplary to embrace a broad regulatory structure needful for the developing the insurance industry as well as in usher in beneficial collaborations for business and spur investor confidence. The study found out that the regulations in place that address insurance pricing, insurance products, claim settlement and distribution channels have a significant impact on the uptake of insurance in the country. In as much as the penetration of insurance in the industry is still unimpressively low, the insurance sector is ripe for growth and investor participation. Moreover, Kenya's insurance sector has presented itself as a chief African hub for investment. In the recent past the insurance market witnessed multiple mergers and acquisitions since 2014, including the arrival of large global insurance players. This trajectory is likely to continue, and more so on a stronger traction going into the future. Notably, worldwide regulatory trends enlighten that rigorous regulation and increased pressure on productivity have the capacity of stimulating the insurance sector's revenue and enhance investment. Moreover, on the international sphere, more insurance regulators are becoming ever intentional and keener on consumer protection and running their insurance companies prudentially. Therefore, the government should consistently enhance the insurance regulatory framework.

5.8 Recommendations on research findings

This research recommended that the Government of Kenya, since it's the only sole regulator of the insurance business in the country should through the Insurance Regulatory Authority (IRA) enhance the regulatory framework by legislating and tightening laws that enhance the regulatory framework on price regulations of insurance products and services, channels of distribution of insurance products, claims settlement processes and ensuring that insurance products that are availed in the market are suitable in scope of coverage and flexibility.

5.9 Recommendations for further research

In light of the study findings, the following recommendations are made: -

Besides an enabling regulatory framework, other factors that respondents considered significant in the influence of insurance penetration were customer service standards and consumer education or awareness. An indicator that the many of the changes in Kenya's insurance regulatory environment will impact the sector positively in the long run, this study recommends assessment insurance penetration in retrospect of regulations addressing themselves to consumer service, protection and education.

The findings also revealed that the single most important reason for the current state of low penetration of life insurance in the country was public insurance awareness. The public requires insurance education and awareness so they find more value in insurance. Unlike conventional insurance, informal insurance mechanisms are very common offering Inpatient, Outpatient, Death and Theft coverage in exchange for regular contributions. There is a preference in dealing with local and more accessible financial options than conventional insurance coverage. Indeed, a large population segment, in the

event of death, and sickness rely primarily on community savings and loans to financially overcome the misfortunes. This study proposes an appraisal on the consumer or public confidence in regards to the regulatory framework. A significant Kenyan population is un-insured, offering a huge prospect for penetration, but even for the already insured segment customer needs and preferences are changing and to tap into this proportion and remain competitive, insurance services need to keep up to date with what products and services will meet those needs.

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Appendix 1: Questionnaire

This questionnaire seeks to gather information regarding the impact of regulatory frame work on insurance penetration Kenyan. Kindly spare a few minutes to respond to the questions below. All information you will provide will be treated with confidence and used for only academic purposes. Your cooperation in this exercise will be highly appreciated.

Section A: Demographic Information

1. What is your gender?

Female   [   ]

 Male   [   ]

3. What is your age bracket?

18-35   [   ]

36-60   [   ]

Over 60   [   ]

4. Please state your education level

Primary level   [   ]

 Secondary level   [   ]

 College/University level [   ]

5. Professional qualifications

----

6. Current Position in the company

7. In your company has insurance business (general and or life) been on: -

Increase   [   ]

Decrease   [   ]

Stagnation   [   ]

8. In your own assessment, in which category of insurance business have you witnessed

growth in insurance penetration in the existing markets?

General   [   ]

Life   [   ]

Both   [   ]

Section B: Regulatory factors

9. Price Regulation

To what extent do you agree with the following statements?

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The price regulation models adopted within the regulatory framework significantly influence insurance penetration in Kenya					
2	Price listing in insurance price regulation affects					

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	insurance penetration in Kenya					
3	Setting of minimum and maximum prices of insurance products affects insurance penetration in Kenya					
4	Price change processes of insurance products within the regulatory framework affects insurance penetration in Kenya					

10. Regulation on Claim Settlement

To what extent do you agree with the following statements?

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Regulation on claim settlement timelines affects insurance penetration in Kenya					
2.	Regulation on arbitration of claim					

	disputes affects insurance penetration in Kenya insurance penetration in Kenya	91			
3.	Regulation on claim settlement - claim reports/evidence affects insurance penetration in Kenya				
4.	Regulation on timely update on claims affects insurance penetration in Kenya				

11. Regulation on distribution channels

To what extent do you agree with the following statements?

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	The regulation on agency appointment in distribution channels affects insurance penetration in Kenya					

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
2.	The regulations spelling out mandatory requirements for various distribution channels affects insurance penetration in Kenya					
3.	The regulations on licensing and approval of various distribution channels affects insurance penetration in Kenya					

12. Regulations on Product Approval

To what extent do you agree with the following statements?

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	The regulation provisions on type of products to be offered by an insurer affects insurance penetration in Kenya					

2.	The regulation provisions on the expected life-cycle of products offered in the market affects insurance penetration in Kenya					
3.	The regulation provisions on suitability (capacity to satisfy needs) of products offered in the market affects insurance penetration in Kenya					
4	The regulation on structure of ownership of the insurance entities (insurers, Brokers, Agents, MIPS, Reinsurers etc.) affects insurance penetration in Kenya					

13. On a scale of 1 to 5 where 1 is Strongly Disagree with statement, and 5 is strongly agree, to what extent do you agree with the following statements:

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	A sound regulatory framework facilitates business growth					
2.	Regulations on insurance pricing influence insurance penetration					
3.	Regulating insurance distribution channels impacts insurance penetration					
4.	Approval of insurance products by the insurance regulator is good practice for the market					
5	Regulating claims settlement influences insurance penetration					

Rate in order of importance, to what extent the following factors have a significant contribution to insurance penetration? On a scale of 1-5, 1=very important, 5=Not Important at all

		very important	important	Don't Know	Less important	Not important at all
1.	An enabling regulatory framework					
2.	Improved distribution channel					
3.	Consumer education or awareness					
4.	Customer service standards					
5.	Relevant and market sensitive insurance products					
6.	Innovation and use of information technology					
7.	Review of pricing					
8.	Perception of the insurance industry					

What do you think is the single most important reason for the current state of low penetration of life insurance in the country?

Description	Response (tick where applicable)
Comparatively inexperienced employees or management	
Lack of timely intervention by the regulator	
Lack of differentiation by companies (duplication of products across the industry)	
Too much focus on top neglecting out low-end market - line customers for growth / monthly new business volumes	
Public Insurance awareness	
Customer care/service by agencies in regard to existing business	
Frequencies of updates to customers by agents	
Timely updates by agencies	
None of the above ('it is not all that bad')	
Other (Please specify)	

Thank you for your participation!

Appendix II: List of registered insurance companies in Nairobi County

General Insurers

1.	Pacis	Resolution	CIC General	Direct line	Intra Africa	Heritage
2.	AIG Kenya	UAP Ins.	Allianz	AMACO	XPLICO	Kenya Orient
3.	Invesco	Trident	ICEA LION	Phoenix	Occidental	Britam
4.	Fidelity Shield	GA	AAR	Sanlam	APA	Metropolitan Cannon
5.	Mayfair	Tausi		Madison General	Pioneer General	

Life Insurers

1	Pioneer Life	ICEA Lion Life	Old Mutual Life
2	Prudential Life	Kenya Orient Life	Liberty Life
3	Metropolitan Life	Sanlam Life	APA Life
4	CIC Life	Capex Life	Barclays Life
5	Britam Life	GA Life	UAP Life
6		Madison Life	

Composite Insurers

1.		Jubilee	Monarch	First Assurance
2.	Kenyan Alliance	Takaful	Continental Re	Corporate
3.	Kenindia		Saham	Geminia

Appendix III: Nacosti Letter of License to Research

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR
SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 116854

Date of Issue: **21/August/2019**

RESEARCH LICENSE

This is to Certify that Mr., JOSHUA NDOLO of Kenya Methodist University, has been licensed to conduct research in Nairobi on the topic: IMPACT OF REGULATORY FRAMEWORK ON INSURANCE PENETRATION IN KENYA. A SURVEY OF THE REGISTERED INSURANCE COMPANIES IN NAIROBI for the period ending : 21/August/2020.

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Appendix IV: Kenya Methodist University Student Introduction Letter

Kenya Methodist University

P. O Box 267 - 60200, Meru, Kenya, Tel: (+254-020) 2118423-7, 064-30301/31229 Email: info@kemu.ac.ke , Website: www.kemu.ac.ke

July 11, 2019.

TO WHOM IT MAY CONCERN

RE: JOSHUA NDOLO MWONGELA   BUS-3-3968-3/2015

This is to confirm that the above named is a student in the Department of Business Administration, in this university, pursuing a Master of Business Administration.

As a requirement, the student is expected to undertake an independent **primary research** in their area of specialization.

The purpose of this letter is therefore; to introduce the student to you and request you to allow him undertake the research in your organization.

The student has been advised to ensure that all data and information from the organization is treated with utmost confidentiality and only used for academic purposes unless otherwise stated.

Any assistance accorded to him will be highly appreciated.

Yours faithfully,

Dr. Peter Kihara, PhD.
Registrar -Academic Affairs