International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 6, June 2015
http://ijecm.co.uk/ ISSN 2348 0386

FACTORS INFLUENCING MICRO INSURANCE PENETRATION AMONG MIDDLE AND LOW INCOME EARNERS IN KENYA

A CASE STUDY OF KISII COUNTY KENYA INSURANCE COMPANIES

Mugo Lucy Wairimu
MBA, Jomo Kenyatta University of Agriculture and Technology, Kenya
lucymugo1@gmail.com

Walter Okibo
Jomo Kenyatta University of Agriculture and Technology, Kenya
kociulorenc@yahoo.com

Abstract

The emergent of micro insurance which is affordable in the Kenyan market is going to play a major role to the economy growth in line with vision 2030. Affordability was among the major causes of low insurance penetration among the middle and low income earners in Kenya but today there are affordable covers which were priced in a manner that makes them affordable to the vast majority of the Kenyans uninsured population. This study was aimed at finding out the factors influencing micro insurance penetration among middle and low income earners in Kisii County Kenya. Various theories on insurance formation background and penetration strategy were also reviewed in the study. A Descriptive Survey Research Design was adopted. The Target population consisted of the 17 insurance companies' having branches in Kisii County with an estimated population of 10 sales executive and 1 manager per company. Purposive sampling technique was used. The findings concluded that there is a significant relationship between the independent variables; distribution channels, professional sales training, government regulations and the dependent variable, penetration. The study recommends collaboration by the various stakeholders in ensuring implementation of strategies that will address the various factors identified as causing low insurance penetration.

Keywords: Micro insurance, Distribution Channel, Professional Sales Training, Government Regulation, Penetration

INTRODUCTION

With almost half of the world's six billion people living on less than two dollar a day, alleviation of poverty has become the biggest challenge to the human society (Craig Churchill, 2005).Any person who earns less than two dollars per day is considered low-income earner (United Nations Development Programme, 1998). In response, the global campaign against poverty gained momentum, with the various development actors suggesting the use of different instruments to alleviate poverty in which Micro insurance was mentioned as one of the instruments and its key role is to give protection to an individual or a community against monetary losses suffered and arising out of unforeseen circumstances. Initially the low income target market had generally been ignored by mainstreamed commercial and social insurance schemes and had no access to appropriate products. Today there is increased emphasis on micro insurance as one driver of alleviating poverty and especially in developing countries where majority population earn less than two dollars a day. Small and medium holders, traders, manufactures and people generating livelihoods on a small and generally vulnerable scale constitute the base of the untapped micro insurance market. Low income households are vulnerable to risks a fact that is widely recognized as one of the key drivers of underdevelopment (International Micro insurance Conference, Nigeria, 2013). In African, a continent with many infectious diseases, limited infrastructure, large agrarian population and fragile economy, low and middle income people are exposed to a multitude of risks that keep them in a vicious cycle of poverty. Illness, death of bread winners, natural disaster, accidents, damage to and loss of property all have devastating effects on livelihoods especially in situations where there is no buffer to help people mitigate the financial impact on the occurrence of the events.

As opposed to developed countries, African countries do not have the financial means to provide the necessary government safety nets to successfully mitigate significant portions of risks incurred by its citizens. Failure of informal schemes and government led programs to address the population's risk management needs opens a significant window of opportunity for microinsurance to mitigate low-income households' vulnerability to risks and help smooth their way out of poverty.

Statement of the Problem

The need for enhanced access to insurance at affordable rates to the lower endof the market is well set out in the Kenya Vision 2030 and other government policy papers. But despite this emphasis the microinsurance market in Kenya is still under developed. Despite the recent increase in interest for micro insurance it is clear that poor people remain largely uninsured or underinsured (McCord, 2001).The insurance sector has not kept pace with the rapid expansion of banking and payment services. Insurance penetration has remained low especially among the low income earners, with the majority of insurance used in this market being the compulsory 3rd party motor insurance, government health and superannuation schemes from NHIF and NSSF respectively.(National Financial Access Survey, 2009) revealed that the rate of insurance penetration is below 3% of the gross domestic population with only 6.8% of Kenya's population having purchased insurance coverage, with an overwhelming 93.2% of the population never having taken up any insurance cover despite of insurance companies introducing new products priced in manner to target the low income earners as well as small and medium enterprises. The report also revealed that the majority of the insured are drawn from formal sector which accounts for about 5% of the total Kenyan population. This means that majority of Kenyans in the informal sector are not adequately insured a fact that prompt search of a different strategy to increase the penetration of micro insurance in this sector.

This study was guided by the general and specific objectives.The general objective of the study was to find out the factors influencing micro insurance penetration among middle and low income earners in Kisii County Kenya. The specific objectives of the study were:

i. To establish the extent to which distribution channels of micro insurance products influence the penetration of micro insurance firms among the middle and low income earners in Kisii County Kenya.
ii. To find out the extent to which professional sales training influence the penetration of micro insurance among the middle and low income earners in Kisii County Kenya.
iii. To find out the extent to which government regulations influence the penetration of micro- insurance among the middle and low income earners in Kisii County Kenya.

THEORETICAL REVIEW

This study focused on various theories as discussed below

Risk Theory

Risk theory is a theory of decision making under probabilistic uncertainty. Risk would be defined as the probability of a cause of an event with negative outcome occurring. The existent of risk is the fundamental rationale for insurance (Criel 1997). The theory attempts to explain the decision people make when they are faced with uncertainty about the future. The cost of risk can be looked at in at least three perspective first is the frequency of the risk how often does it occur, secondly is the monetary cost or the financial severity and finally in the human cost in terms of pain and sufferings (Dickson 2002). In view of these adverse of risks there is a need for risk management and this is where different people come up with different coping mechanisms. Some prefer insurance to provide protection against the financial consequences through the concept of risk pooling while others prefer alternative informal risk mitigation mechanisms like self-insurance and communal insurance such as savings, welfare groups, loans and family support.

Concept of uncertainty

Uncertainty is the major foundation of insurance theory; two assumptions with respect to the consumers are made in the theory of uncertainty (Mas-Collel et al., 1995). To start with the expected utility theorem is assumed to hold. It states that utility functions (satisfaction that is derived by the consumer) have the expected utility form (Neumann-Morgenstern utility function), i.e. aggregate utility is equal to the sum of the probability weighted utilities of a possible outcome. Secondly, individuals are assumed to be risk averse. From this risk aversion, individuals are willing to trade risk for certainty because it derives additional utility from a certain outcome (Dionne, 2000). More generally, if the price for insurance is fair, i.e. the premium equals the expected indemnity payment of the insurance company, the individual prefers the certain outcome over any other outcome with non-zero variance (Schlesinger, 2006). In addition, (Mossin's theorem, 1968) explains that if all preceding assumptions hold, the individual is fully insured. (Loewenstein et al. 2001) argue that even if the price is not fair i.e. the insurance company keeps a profit, the individual might still opt for insurance because of potential non-pecuniary benefits (e.g. peace of mind) from being insured. By relying on the assumption that insurance policies premiums are fairly priced is the assumption that insurers themselves are risk neutral towards risk or are able to perfectly diversify the risks they are insuring.(Roth &Athreye ,2005) claim that insurance companies are indeed risk neutral towards insurance related exposures as these are dwarfed by the size of their overall portfolio. Some risks are by definition more diversifiable than others: A very high degree of diversification can be reached for life and accident insurance while polices insulating farmers from draughts or natural disasters bear a great deal of covariant risk (Churchill et al.,2006).

Probability theory

Probability theory is concerned with measuring the likelihood that something will happen and making predictions on the basis of likelihood. The theory deals with random events and it is based on the ground that although some events appear to be matter of the chance they actually occur with regularity over a large number of trials. Laplace (1816), "probability is the ratio of the number of favorable case to total number of equally likely cases'. In other words if they are severally equal likely events that may happen, the probability that anyone of these events will happen , is the ratio of the number of cases favorable to its happening to the total number of possible cases."

Vaughan and Vaughan, (2008) argue that by combining sufficiently number of homogeneous exposure units, the insurer is able to make predictions for the group as a whole using the probability theory. It is agreeable that if the insurer can predict future losses with absolute precision the possibility of losses would be minimized by charging adequate premiums to form a pool which would be able to manage the expense and total losses.

Strategy Theory

One early definition of strategy was provided by the American business historian, Chandler (1962), defines strategy as the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out those goals. Strategy helps in providing the long term direction of a firm. This provides a perspective for various diverse activities over time, which enables organizations perform current activities at the same time viewing in terms of long term implications for the probable success of the organization. Mintzberg,et al (2002) defines strategy as a ploy, pattern, position and perspective. As a plan, strategy specifies a consciously intended course of action of an organization. These plans are made in advance of actions to which they apply and they are developed consciously and purposefully.

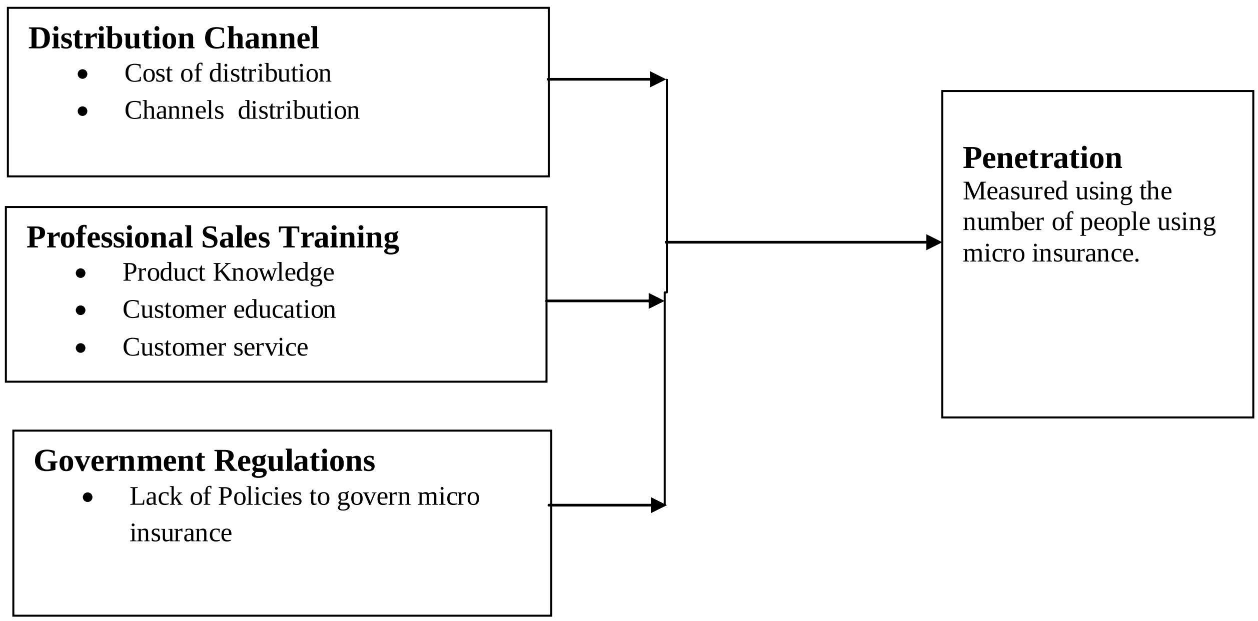
A good marketing strategy is required especially in service industry. Marketing Micro-insurance call for good planning and adoption of the right course of action (strategy) since it is less rewarding and not unless it's sold in bulk using very little expenses companies are likely to make losses.

Conceptual Framework

The study focus on challenges facing micro insurance penetration among the middle and low income earners and it's going to look at distribution problems, professional staff training, and government regulations as the independent variables. Dependents variable shall be the penetration of micro insurance among the low and middle income earners.

The penetration can be evaluated in terms of number of people buying insurance covers and the rate of insurance default on renewal. The uptake of insurance cover is a key factor in this study. The independent variables conceptualized as causes of the turnover while the turnover will affect the penetration among the poor and middle income earners. The situation is illustrated in the figure 1.

Figure 1: Conceptual frame work



Research Gap

In most of the studies reviewed in empirical review, it has been noted that micro insurance has been studied in other countries and several challenges have been highlighted. In Kenya previous studies focused more on the general insurance business and the insurance industry as a whole. Very little has been written on challenges affecting the growth of micro- insurance business in Kenya. It was further noted that there is no clear cut on micro insurance in Kenya; the current insurance regulations are aimed at insurance industry as a whole with little recognition of micro insurance business as distinct from mainstream insurance business. To close gap the research will look at various challenges and find out how they could be contributing to low micro insurance penetration in Kenya.

RESEARCH METHODOLOGY

This research problem was studied through the use of descriptive survey research design. The research focused on the factors influencing micro insurance penetration among middle and low income earners in Kisii County Kenya. The study population is comprised of the 17 insurance companies having branches in Kisii County andwith an estimated population of 10 sales executive and 1 manager per company.

The study adopted a case study technique. The case study shall be of the 17 registered insurance companies having branches in Kisii County as a representative of all 47 insurance registered insurance companies in Kenya. Purposive sampling was used to identify the respondents. The sample size shall be of 4 Sales Executives and 1 Branch Manager from each of the 17 companies.

Table 1: Shows the Sampling Frame

Categories	Target population	Sample size	Percentage
Sales executives	170	68	40%
Branch managers	17	17	100%
Total	**187**	**85**	**45%**

The research used the self-administered questionnaires as the data collection instruments. Both structured and unstructured questions were used, so as to ensure that the respondents were free to express their opinions as well as the researcher getting to the bottom of the research easily. Confidentiality was upheld for all the respondents by ensuring they are no names required or any details that may reveal the respondent identity.

The researcher tested the questionnaire using five respondents from different ages and gender to find out if they understand the questioner information and that it can be self-administered. Questions that respondents had difficulties to understand were revised for easy understanding to respondents. This was to ensure there is validity and reliability of data collected.

This study adopted descriptive statistics to analyze the data. While descriptive frequencies which include percentages and frequency tables were used to make general statements of how categories of data were related. The data was presented by use of frequency tables, percentages, bar graphs and pie charts to tabulate the information gathered appropriately.

ANALYSIS AND FINDINGS

The purpose of this study was to find out the factors affecting the growth of micro insurance business in Kenya. Among the variables investigated were professional training of sales staff, sales promotion of life distribution channels and government regulation policies on life insurance. The study targeted insurance sales staff of the 17 registered and licensed insurance companies in Kisii county Kenya. The data that was collected from the respondents was analyzed and has been presented using tables, charts, frequencies and percentages.

Professional Sales Staff Training

Majority (78%) of the respondents responded that the company does not undertake professional sales staff training, 11% were of the opinion that the training is satisfactory, and 5% indicated their affirmation that it was very satisfactory, 6% were undecided. This is shown from Table 2. This suggests that respondents had a common agreement that the lack of undertaking of professional sales staff training affects the growth of micro insurance business. Customers are value – maximisers and they form an expectation of value and act on it. Buyers will buy insurance from a firm that they perceive to offer the highest customer – delivered value, which is the difference between total customer value and total customer cost. A buyer's satisfaction is a function of the insurance product's perceived value and the buyer's expectations. Customer satisfaction should be a goal and a marketing tool. Therefore insurance companies should always ensure that marketing staff especially the sales representatives are always motivated.

Sales Force Training and Development

From the study findings, majority (64%) of the respondents from these insurance companies responded that sales staff training and development is "very much" a major factor determining growth of micro-insurance business, 25% were in agreement that its "much "of a factor, 10% indicated that it was "not much" while 6% indicated that they were not sure growth of micro-insurance business was affected at all. This is shown from Table 4.3.85% of the respondents had a common agreement that the company sales staff training and development is a major factor and it affects the growth of micro- insurance business. Lack of professionalism is a source of customer dissatisfaction in the insurance industry. There should be proper training and development of sales staff to equip them well to face the customers in the target market. Lack of technical and experienced staff can lead to improper interpretation of the policy provisions and consequently payment of a claim that was not otherwise payable under the policy.

Table 2: Professional Staff Training

Attributes	Responses	Frequency	Percentages
Professional training of sales staff	Very Satisfactory	4	5%
	Satisfactory	9	11%
	Not Satisfactory	63	78%
	Not sure	5	6%
Sales staff training a factor in growth and marketing of micro insurance	Very much	52	64%
	Much	16	20%
	Not much	8	10%
	Not effect at all	0	0%
	Not sure	5	6%

Distribution Channels

Agents and Brokers Preference of Selling other Insurances Rather than Micro Insurance

56% strongly agreed that Agents and brokers paid on commission prefer selling other insurances rather than micro insurance**.** 33% agreed and 6% disagreed with 5% not sure. These statistics strongly indicate that agents are not the right channel to use in distribution of micro insurance. Other channels should be strategically identified in order to increase micro insurance penetration

Transaction Cost

46% agreed that the transaction costs involved in micro insurance sale process may be more than gains while 12% strongly agreed, 30% disagreed, 2% strongly disagree and 10% was not sure. From this statistics there is an indication that transaction costs involved in micro insurance may be more than the gains. There is need to cut cost for distributing the micro insurance to ensure it reaches more targeted population.

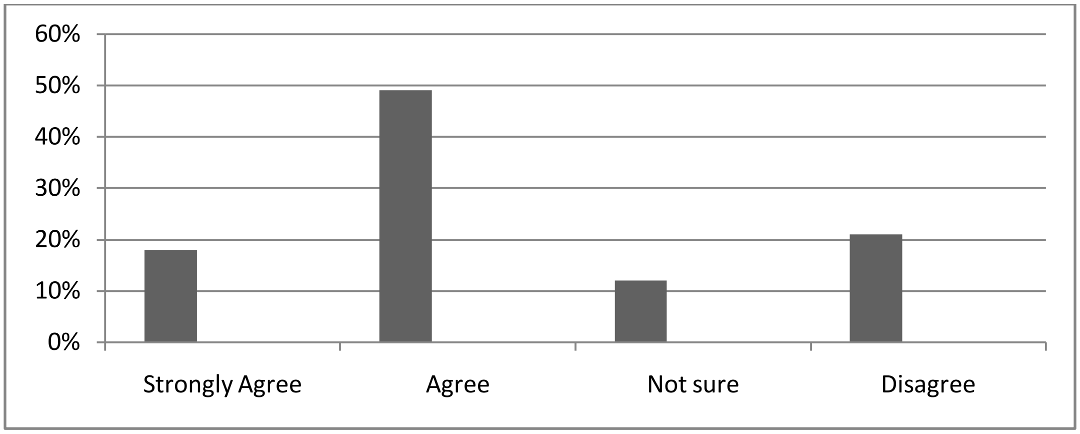
Table 3: Distribution Channels

Attributes	Responses	Frequency	Percentage
Preference of agents and brokers selling other insurances rather than micro insurance	Strongly agree	45	56%
	Agree	27	33%
	Not sure	4	5%
	Disagree	5	6%
	Strongly disagree	0	0%
Transaction Cost	Strongly agree	10	12%
	Agree	37	46%
	Not sure	8	10%
	Disagree	24	30%
	Strongly disagree	2	2%

Government Regulation Policies

From the study findings, 18% of the respondents strongly agreed the government regulation policies in Kenya affected the marketing and growth of micro- insurance business in the company, the majority at 59% agreed, 12% were not sure while 11% disagreed. The findings agrees with the statement that policy and regulatory framework has no provisions pertaining to micro insurance in Kenya and current initiatives are either conducted within the existing general policy and regulatory environment of mainstream insurance or informally from existing regulation.

Figure 2: Government Regulations



CONCLUSIONS

The study established that over 80% of the sales staff in insurance companies were not in management levels, with only 20% being in management levels. The study also established that 55% of the respondents had worked with the organization for between 1-5 years, 25% for less than one year, and 16% for between 5-10 years with only 4% having worked for over 10years. This indicates that majority of the respondents were knowledgeable about the operations of their companies regarding micro insurance. In regards to sales and marketing department the study findings indicated that over 95% of the respondents confirmed that their organization had a comprehensive sales and marketing department. However among the sales staff there were those who dint actually agrees that their organizations have a comprehensive sales and marketing department. This clearly indicates that the low penetration is as a result of under staffing of sales departments in some of the organization. Limitations looked into as the cause of the low insurance penetration included Distribution problems, Professional sales staff training, and Government policies.

RECOMMENDATIONS

Insurance is currently contributing very little to the GDP, yet the potential is there and this requires to be harnessed so as to create wealth and improve the standards of living for the people of Kenya thus aiding the economic pillar of development under vision 2030. It is recommended that the Association of Kenya Insurers (AKI) sensitize its members on the best training opportunities to ensure that the services offered to the micro insurance clients by the sales staff are value adding and in the best way possible. There is need of recruiting professionals who would undergo specialized training on Micro insurance to ensure they are well informed and are able to give the right information to customers to grow the market.

Distribution channels in Micro insurance is one of the methods the insurance companies can use to enhance growth of micro insurance business and therefore Insurance Regulatory Authority (IRA) should license the micro finance institutions, Sacco's and the welfare associations to distribute the micro insurance. This would reduce the transaction costs since these institutions would distribute the products in mass .They should also come up with mechanisms on how the micro insurance sector can best be monitored to attain maximum growth. Proper regulation of the sector would ensure a level playing field and rid the industry of unethical practices.

LIMITATIONS OF THE STUDY

The Study focused on Insurance companies who are the suppliers of the Insurance products and left out the distributors of the products like the Brokers and Agents who would have had some input, based on the feedback they get from customers as they sell the available products. Also omitted were the consumers themselves and the general public who would have given an insight as to what prevents them from buying the products. There is therefore a possibility that some factors leading to low insurance uptake that could have been brought out by these groups were left out.

RECOMMENDATIONS FOR FURTHER STUDIES

The study concentrated on the internal distributors of the micro insurance products, that is, the sales staff, other studies should be undertaken where brokers and independent Agents are interviewed, as well as the general public. This will ensure that all Stakeholders contributions are taken into consideration in the attempt to alleviate the problem of low Insurance penetration in Kenya. Further other researcher may focus on the effect of micro insurance penetration on financial performance of in insurance companies in Kenya. Further.

REFERENCES

Brown, W. (2001). Micro insurance: The Risks, Perils and Opportunities. Small Enterprise Development Journal, March

Chandler,A.D. (1962) Strategy and structure, MIT Press

Churchill, C. (2003). Is Micro insurance a Priority for the Poor? Understanding the Demand for Risk-managing Financial Services. Retrieved August 10, 2007

Churchill, C. et al. (2006). Protecting the Poor: A Micro insurance Compendium. Geneva: International Labour Organization

Churchill, C., Liber, D., McCord, M., Roth, J. (2003). Making Micro insurance Work for Microfinance Institutions. Geneva: International Labour Organization

Churchill, C., Reinhard, D. & Qureshi, Z. (2006). Into Action: Micro insurance – Making insurance work for the poor, Report Summary Micro insurance conference, Munich

David, J. (2007). Principles and practice of Marketing, 5th edition, McGraw-Hill Education, UK

Dionne, G. et al. (2000). Handbook on Insurance. Boston: Kluwer Academic Publishers

Dror, D. & Radermacher, R. (2005). Integrating Health Insurance for the Poor into the Indian Health Insurance Scenario. Insurance Watch, Vol. 3 (12), 11-15

Etemesi, C. (2004). The analysis of the effect of process operations on service delivery in selected insurance firms in Kenya. Nairobi: Kenyatta University, MBA Project, unpublished

Financial sector deepening Kenya (2009) National Financial Access Survey

Government of the Republic of Kenya. (2007). Insurance Act Cap 487 laws of Kenya. Revised edition, Government Printers industry, Kenya.

Government of the Republic of Kenya (2007). Kenyan Vision 2030. Government Printers industry, Kenya.

IRA. (2011). Report of the Insurance Regulatory Authority for the Year Ended 31st December, 2011.

IRA. (2009). Report of the Insurance Regulatory Authority for the year ended 31st December, 2009.

International micro insurance conference. (2013). Learning session Nigeria,September 10-11, 2013. Munich

Jehle, G. & Reny, P. (2001). Advanced Micro economic Theory. Boston: Addison Wesley

Kabui, H.W. (2002). Marketing Communication Strategies in the Insurance Industry: a case of firms in Kenya. Nairobi: Kenyatta University, MBA Project, unpublished.

Kenya insurance Report Q1 (2012).Published by: Business Monitor

Kombo,D.K.,&Tromp,D.L. (2006). Proposal and Thesis Writing, Nairobi, Pauline's publications. Africa.

Kotler, P. & Armstrong, G. (2008). Principles of Marketing, 12thedition, New Jersey, US

Kumah,R. (2005). Research Methodology: A-Step-By-Step Guide for Beginners, (2nd.ed), Singapore, Pearson education.

Loewenstein, G., Hsee C., Weber E. and Welch N. (2001). Risk as Feelings. PsychologicalBulletin, Vol 127(2), 267-286.

Makove, S. (2002). Insurance Industry at the Cross Roads. The Insurance Journal (IIK),page 12

Makove, S. (2006). The Role of the Regulatory Authority in Life insurance and Pension Business. The Insurance Journal (IIK), p. 1.

Mathu. K (2012 September 8). Fraudster Milking Firms Dry. Standard Newspaper pg 11

Mas-Colell, A., Whinston & M., Green, J (1995). Microeconomic Theroy. New York: OxfordUniversity Press

McCord, M. & Churchill, C. (2005). Delta Life Bangladesh, CGAP Working Group onMicro insurance, good and Bad Practices in Micro insurance, Case Study No. 7

McCord, M. & Roth, J. (2006), Micro insurance Note 2: How is micro insurance delivered?Washington: USAID – US Agency for International Development.

Mintzberg,H.,Joseph B. Lampel,James B,Sumantra G.(2002).The strategy process(4th Ed),Pearson Education Publishers' Ltd

Mossin, J., (1968). Aspects of Rational Insurance Purchasing. Journal of Political Economy.Vol. 76, 533-568.

Muchire, S.K. (2003). Assessment of Service quality in the Kenya's Insurance Industry. Nairobi: Kenyatta University, MBA Project, unpublished.

Mugenda & Mugenda. (1999). Research Methods: Qualitative and Quantitative approaches, Acts Press, Nairobi, Kenya.

Pierre- Simon de Laplace. (1816). Philosophical Essay on Probabilities, 3rd edition. Paris: councier imprimeur

Roth, J. & Athreye, V (2005). TATA-AIG Life Insurance Company Ldt. - India. CGAPWorking Group on Microinsurance, Good and Bad Practices in Microinsurance, CaseStudy No. 14

Schlesinger, H. (2006). Mossin's Theorem for Upper-Limit Insurance Policies. The Journal ofRisk and Insurance. Vol 73 (2), 297-301

Vaughan.E.& Vaughan.T (2008). Fundamentals of risk and insurance,111. Riverstreet, Hoboken, John wiley and sons.

