

FACTORS DETERMINING THE SLOW GROWTH OF REVENUE OF INSURANCE BROKERAGE FIRMS IN KENYA

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ABSTRACT

Insurance plays an important role in any economy by covering economic and financial risk arising out of certain events. An insurance broker is an intermediary concerned with the placing of insurance business with an insurer or reinsurer for the expectation of payment by way of brokerage fee or commission. Despite various efforts to ensure stability and growth in the insurance industry brokerage firms in Kenya have been reporting slow growth of revenue of insurance for the last five years were by the available statistics shows that The gross growth of revenue of insurance being as low as 30% compared to other industry such banking industry as high as 70% growth in terms of revenue in addition Report from AKI show that over 60% of brokerage firms recorded decline in profit last year. The general objective of this study was to investigate the factors that determine the slow growth revenue in the insurance brokerage firms in Kenya. The study sheds light to the insurance brokers and makes them understand the factors behind slow growth of the revenue. The study adopted a descriptive research design approach. Quantitative data collected using questionnaires was analyzed by the use of descriptive statistics using Statistical Package for Social Sciences (SPSS). The study targeted 30 insurance brokerage /companies that are operating in Kenya. The study found out that technology competence had no significant impact on revenue growth secondly the study found indicated that the organization and policies on application of technology influenced the slow growth of revenue to great extent. Thirdly respondents agreed that lack of proper schedules for training leads to slow growth of revenue. Finally the study concludes that government policy influenced the slow growth of revenue in the brokerage industry. To great extent the local insurance policies affected the growth of revenue.

Key Words: *slow growth of revenue, insurance brokerage firms, Kenya*

Introduction

This study seeks to explore the factors determining the slow growth of revenue of insurance brokerage firms in Kenya. Revenue is the amount of money that is brought into a company by its business activities (Uyarra & Flanagan, 2010). In the case of government, revenue is the money received from taxation, fees, fines, inter-governmental grants or transfers, securities sales, mineral rights, and resource rights, plus any sales that are made. Revenue is the amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income (Arminas, 2011).

In business, revenue or revenues is income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Some companies also receive revenue from interest, dividends or royalties paid to them by other companies (Williams et al, 2008). Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time. In many countries, including the UK, revenue is referred to as turnover. Profits or net income generally imply total revenue minus total expenses in a given period. In accounting and financial analysis, revenue is often referred to as the "top line" due to its position on the income statement at the very top. This is to be contrasted with the "bottom line" which denotes net income, (Asingo, 2010).

Statement of the Problem

According to Sang (2012) Despite various efforts to ensure stability and growth in the insurance industry brokerage firms in Kenya have been reporting slow growth of revenue of insurance for the last five years were by the available statistics shows that the gross growth of revenue of insurance being as low as 30% compared to other industry such banking industry which is as high as 70% growth in terms of revenue. In addition Report from AKI (2012) show that over 60% of brokerage firms recorded decline in profit in 2011. Locally, Wambua (2011) in her research paper on factors influencing sales force motivation stress the need to motivate the salesman to be able to sell and also looks at the need to change the whole approach of the marketing strategy so as to motivate the sale force. When the sale force is motivated they will be growth in the sales which will translate into increase in revenue. Mirie, (2010) asserted that the problem faced by independent insurance agents in Kenya relate more to marketing of insurance products and the perception of the agents while Abdullahi (2009) did a study of the strategic responses by Kenyan insurance companies following liberalization.

However to the best knowledge of researcher no other study has been done on the factors determining the slow growth of revenue in the insurance brokerage firms in Kenya. It is in this light that the researcher aims at carrying out a research on the factors determining slow growth of revenue in the insurance brokerage industry in Kenya.

General Objective of the Study

The general objective of this study was to establish the factors that determine the slow growth revenue in the insurance brokerage firms in Kenya.

Specific Objectives

1. To assess the effects of technology on the growth of revenue in the insurance brokerage firms in Kenya
2. To determine how customer knowledge influence on the growth of revenue in the insurance brokerage firms in Kenya.
3. To explore how regulatory policies affect the growth of revenue in the insurance brokerage firms in Kenya.
4. To establish the effects of employee training on the growth of revenue in the insurance brokerage firms in Kenya.

Literature Review

A study by Eisenhardt (2010) found that Agency Theory is directed at the person presenting the agency relationship. This is where one party delegates work to another party who performs the duty on behalf of the principal: This person is authorized to perform legal acts within his competence and not on his own behalf but for the principal. A growing view in the modern literature recognized however that the two are strange bed fellows. An Insurance Brokers is agent employed to buy and sell on behalf of another. He is not liable to his principle for the failure of the buyer to pay the price. However, in performing his role, he owes a duty to his principal. The level of care expected will vary; a higher level of care will be expected from a professional broker than from a part-time insurance agent (Wright and Oakes 2010).

Conceptual Framework

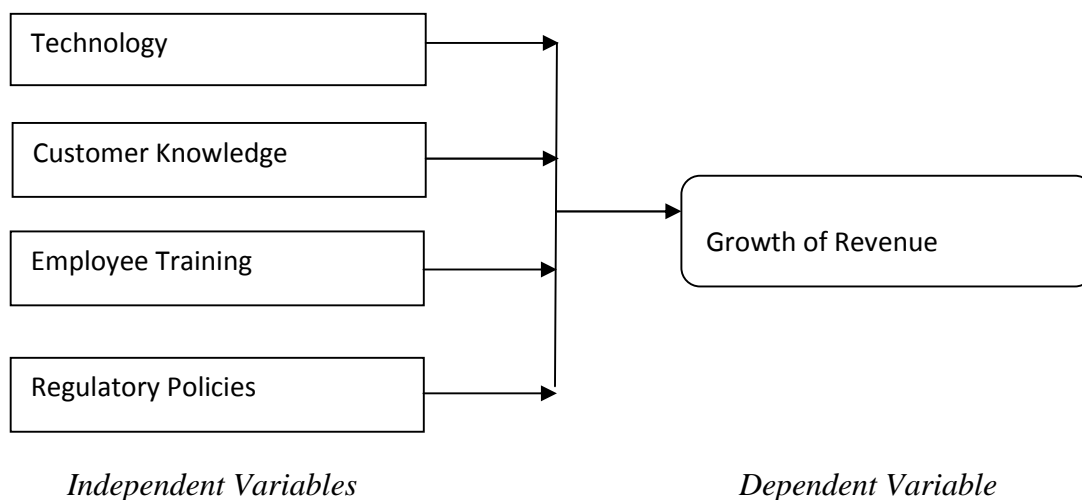


Figure 1: Conceptual Framework

The conceptual framework of the study examined causal relationships between dependent and independent variables shown below:

Technology

Insurance brokerage firms are among the earliest users of information technology (Federal Reserve Board, 2008). A number of researchers (Maidique and Patch, 2008; Stanton and Ashton, 2009; Spital & Bickford, 2008; Herman, 2011; Cooper, 2010) have studied a few factors that contribute to the revenue growth of firms in the insurance sector in relation to technology. Of particular importance is technology strategy, which represents the pattern of decisions, the position relative to competitors and the perspective from which management makes decisions regarding technological activities, equipment, materials and knowledge (Herman, 2008).

Customer Knowledge

The marketing literature on customer relationship management and key account management has not been updated in the light of revenue management. Historically, the marketing literature posits two main drivers for customer profitability and lifetime value; these are sales volume (Hallberg, 2009) and customer retention (Reichheld and Sasser, 2011; Reichheld, 2010). The paucity of research in customer and supplier relationships in service industries relative to manufacturing industries (Mabert and Venkataramanan, 2008).

Employee Training

Zeithaml et al. (2008) indicate that the service-performance gap between what is expected and what is often delivered may be narrowed through increased and better employee training. In order for agents to be responsive to the pre-sale, during-sale, and after-sale service needs of their local clients, agencies must invest in training programs in which their agents are comfortable using the technological resources made readily available to them through their providers (Herfled, 2009).

Regulatory Policies

An insurance industry report (Altiero, 2008) proposes the emergence of a virtual channel that removes constraints of time, place, and form from the transaction universe that currently defines the insurance industry. A recent report compiled by Ernst & Young International (Ernst & Young, 2007) indicates that many insurance brokerage institutions believe that electronic business will significantly reshape their customer relationships. According to Rumsey (2007), the insurance sector has been rather ignorant of this issue due to three main reasons. First, policymakers in most countries perceive the insurance sector as an unattractive and difficult channel for money laundering to take place. This is due to the fact that the insurance sector offers a limited number of products and services to its clients, which hampers the scope for manipulation for money laundering purposes. Secondly, there are various risk assessment methodologies which are applied before an insurance policy is issued to a customer. Such assessments provide proper control over the issuance of insurance policies.

Research Methodology

Research Design

This research study adopted a descriptive approach on the factors determining slow growth of revenue in the insurance brokerage industry in Kenya. The descriptive design deems appropriate because the main interest was to establish the relationship and analyze how the determinants supports matters under analysis in one organization. Descriptive survey research designs was used in preliminary and exploratory studies to allow researchers to gather information and summarize, present and interpret data for the purpose of clarification (Orodho, 2009).

Study Population

A population is the 'aggregate of all cases that conform to some designated set of specifications (Paton, 2010).The population of the study consisted of the 30 management of group of insurance brokers in Kenya which are licensed by the Insurance Regulatory Authority. The sampling frame was drawn to adequately represent the population. The study compiled a substitute list with a complete listing of all sampling units in the population.

Data Collection instruments

The researcher used a questionnaire as the data collection tool to collect views from the respondents on the factors determining slow growth of revenue in the insurance brokerage industry in Kenya. The questionnaires were structured in a way that all relevant information was given. The questionnaire consisted of two sections, where the first part mainly contained demographic information. This enabled the researcher to know the nature of the brokers, while the second part focused on the factors determining slow growth of revenue in the insurance brokerage industry in Kenya.

Data Analysis

Quantitative data was collected using questionnaires which was analyzed by the use of descriptive statistics using SPSS (Statistical Package for Social Sciences) and presented through percentages, means and frequencies. The information was also displayed by use of frequency tables, charts and other figures applicable in data presentation.

Pilot study

A pilot study was conducted by the researcher by sending some few questionnaires to the company. These were filled by some employees at random from the selected departments. From this pilot study the researcher was able to detect questions that may need editing and those with ambiguities. The final questionnaire was then printed and dispatched to the field for data collection with the help of research assistants.

Conclusions

The study concludes that effects of information technology on growth of revenue, customer satisfaction, employee benefits were the factors determining slow revenue growth in insurance brokerage firms in Kenya.

The study concludes that the companies applied modern knowledge of technology to generate revenue. Technology increased rate of revenue growth and technology strategy was a way to improve competitiveness growth of revenue. Timing of technology introductions and organization and policies on application of technology influenced the slow growth of revenue.

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