FACTORS CONTRIBUTING TO LOW INSURANCE PENETRATION IN KENYA

George M. Kamau

Student, Jomo Kenyatta University of Agriculture and Technology

KENYA

CITATION: Kamau, G. M. (2013), Factors Contributing to Low Insurance Penetration in Kenya, *International Journal of Social Sciences and Entrepreneurship.* Vol.1, Issue 2, 2013, 1 (2), 463-469

ABSTRACT

The issue of insurance penetration remains a key concern for insurance practitioners and scholars as well as policy makers. In Kenya insurance penetration has remained low at 3.1% of the country's GDP as at August 2012 despite the social, economic and political changes experienced in the country in the last 10 years. This study investigated factors contributing to low insurance penetration in Kenya. Knowing the reasons why this is so is important given the pivotal role that insurance plays in the development of the country. The study was a descriptive survey. Primary data was used in the study and was gathered through use of a questionnaire. The target population for the study was MBA students at JKUAT Nairobi CBD campus. A sample of 65 respondents was chosen. Fifty two questionnaires were completely and satisfactorily filled. Two interviews were conducted with the public relations manager and the marketing manager at the Insurance Regulatory Authority. Data analysis was conducted using descriptive statistics. The data was presented in charts and tables as per the identified themes based on the research objectives. The study found that nature of insurance industry, income, cost of insurance and demographic factors are factors which can explain the current low insurance penetration in Kenya as they had large negative contribution on uptake of insurance services. The study also found that it was unclear on whether education contributes to the low insurance penetration. The study further found that the existing regulatory framework could not be linked to the current low insurance as it was contributing positively to uptake of insurance services.

Key words: Insurance penetration, Kenyan insurance industry

Introduction

Business entities and individuals are exposed to substantial risk associated with losses to property, income, and wealth because damage to assets, legal liability, disability, retirement, and death. Costs associated with legal liability and employee benefit programs and health care, have become matters of deep concern to company management. Individuals seeking coverage of their professional and personal risks have similar concerns (Rejda, 2008). Insurance is one form of risk management primarily used by entities and individuals to hedge against the risk of a contingent, uncertainty loss (Leftley, 2002).

Statement of the Problem

The very low insurance penetration in Kenya implies an inherent problem in the economy. According to Minister for Finance Robinson Githae, (2012) and the AKI reports (2009; 2010) the insurance penetration in Kenya is 3.1% percent of the country's GDP and is low and not consistent with our aspiration to be a middle-income country by the year 2030.For us to get there the contribution of insurance to the GDP has to get to at least 10%. Our figure of 3.1% is compared to South Africa's 14 per cent and Malaysia's ten per cent (Awino, 2008). The Low insurance penetration level in Kenya is a reflection that a good majority of Kenyans have not taken any cover to protect themselves and their properties against risks. It implies that in the event of a calamity or an unpredictable bad event happening to them or their property, Kenyans stand exposed to major losses with no recourse of compensation. Kariuki, (2007) noted that despite the insurance industry having so many players including 45 insurance companies their activities were yet to translate in to higher insurance penetration.

Given the primary role that insurance has to play in the socio-economic development of the country it is therefore necessary to understand the factors that contribute to this very low level of insurance penetration. With the governments key pillar on vision 2030 of a healthy and socially empowered nation to get to middle-income country by 2030(GOK, 2005), it is imperative to understand those factors that are hindering the development of this very critical sector. This study therefore sought to fill in the knowledge gap on the nature of contribution of certain often cited factors have on low penetration levels of insurance services in the Kenyan context.

Objectives of the Study

General Objective

The general objective of this study was to establish the factors contributing to the low penetration of insurance in Kenya.

Specific Objectives

1. To establish how the nature of insurance industry contribute towards the low penetration of insurance in Kenya

2. To explore how cost of insurance products contribute to the low penetration of insurance products

3. To find out how the insurance regulatory framework contributes towards the low penetration of insurance in Kenya

4. To check how income levels contributes towards the low penetration of insurance in Kenya

5. To establish how education levels contribute towards the low

6. To explore how demographic factors contribute towards the low penetration of insurance in Kenya

Literature Review

Theoretical Review

The study was grounded on theoretical frameworks which help in explaining insurance penetration. The theoretical review yields variables like income, pricing, rate of interest, current consumption and accumulated savings in wealth form as variables influencing insurance consumption. Demographic and social variables were also incorporated in theoretical models and their potential impact on an individual's life insurance consumption decision was investigated. These theoretical propositions and arguments were found to be a valid basis on which to base the current study.

Nature of Insurance Industry and Insurance Penetration

According to Foong & Idris, (2012) insurance industry issues such as information flows, nature of contracts, levels of fraud have contributed to apathy towards insurance products across the world. Lai & Limpaphayom, (2003) noted that different insurance companies choose different strategies according to their resources and capabilities. Insurance companies with a focused strategy choose to compete by targeting at a specific market or product-line segment. On the other hand, many insurance companies have also decided to increase their product diversity to reduce risk of over-relying on one particular product market segment. Unlike many other industries, the barrier to entry for the insurance industry is high; one needs a license to operate an insurance business.

According to Akotey et al., (2011) one important factor that encourages informal sector workers to demand micro insurance is the flexible payments and collection of affordable premiums. Since most of the informal workers do not have regular income, providing insurance to them requires the proper structuring of its price (premiums) in terms of cost, flexibility of payments and ease of collection. It is, therefore, very important that the timings of premium collection is structured to coincide with the cash inflows of low- income households (Sinha, 2002; Tenkorang, 2001). This point is reiterated by Sebstad et al. (2006) that, micro- insurance demand studies that take into consideration the cash flows of the informal sector can be valuable in designing premium payment systems. This is because past studies have proved that micro-insurance schemes can run into serious difficulties when premium payment options do not coincide with the cash flow of low-income households (Guha-Khasnobis & Ahuja, 2004; Sebstad et al., 2006; Leftley, 2002).

Research Methodology

This study was descriptive research design and the population for the study was consumers of insurance in Kenya. The study took MBA students at JKUAT Nairobi CBD campus as the target population. Stratified and systematic sampling method was used to select the respondents to be involved in the study.

Nature of Insurance Industry and Insurance Penetration

With regard to the nature of the insurance industry, the study established that the policy documents were not understandable to majority of Kenyans and that there was no enough information on insurance services in Kenya. The study also found that a number of insurance companies, brokers and were delivering relevant services, providing information and settling claims without lengthy procedures. The study further found that a number of players have been working towards ensuring that the insurance industry image insurance industry image is enhanced and the insurers walk the talk.

Cost of Insurance and Insurance Penetration

On cost of insurance and uptake of insurance services, the study found out that the pricing of insurance products was not easy to understand and that most of the insurance products were very expensive. The study found that cost of insurance is linked to the low insurance penetration.

Insurance Industry Regulatory Framework and Insurance Penetration

The study found that there is a functional regulatory framework which has removed barriers to entry to insurance industry. The study also found that existing regulatory framework has laid down the procedures which have increased transparency and that the framework understands and has taken into consideration the Kenyan context. The study also found that the regulatory framework protects insurance consumers. The study further found that there were proper laws to safeguard the interests of the insurance services consumers and that the regulatory agencies regularly conduct insurance awareness campaigns. The study thus found that the existing regulatory framework cannot explain the existing low insurance penetration in Kenya.

Income and Insurance Penetration

With regard to income levels the study found that the type of occupation determines the likelihood of taking up insurance and that individuals in certain occupation/profession are more likely to take up insurance services. The study also found that persons in the informal sector have not embraced insurance as the ability to pay premium determines whether one takes up insurance as indicated. The study thus inferred that it is income can explain the existing low insurance penetration in Kenya.

Education and Insurance Penetration

The study also investigated the contribution of education and low insurance penetration and found no clear linkage. The study found that it was unclear whether persons educated up to secondary school or college level. The study however found that education enhances chances of access to information on insurance and that education enables persons to understand insurance policies.

Demographic and Insurance Penetration

The study then investigated demographic factors contribution where it was found that various demographic factors had a bearing on low insurance penetration. The study found that young people are not likely to buy insurance products and that married people are more likely to take insurance services as shown by a mean. The study found that it was unclear on whether women are more likely to take up insurance services and that people with children are likely to take up insurance. The study found that demographic factors shape perception and attitude towards insurance and thus influence creation an insurance culture which is essential in facilitating the success of insurance services. Overall the study infers that demographic factors can explain the existing low insurance penetration in Kenya.

Conclusion

The study is based on the perspectives on consumers of insurance who are drawn from diverse backgrounds as well as two key stakeholders in the insurance industry. The study has made several findings robust economy and there is need to understand issues affecting it.

The study has gotten insight into the nature of Kenya's insurance industry and found that it is marked by a number of characteristics. The study findings are contrary to several researchers (Sebstad et al., 2006; Leftley, 2002) who found that most insurance industries in developing countries have concentrated on designing and popularizing micro insurance and products for informal sector. The study also found that contrary to Campbell, (2012) assertion that there is need for insurance stakeholders to do all they can to improve public perception towards insurance the Kenyan insurance industry is not doing much to this end.

The study findings that the low insurance penetration in Kenya can be explained by cost of insurance services are supported by a number of authors. Dowd, (2007) and Tenkorang, (2001) noted that there is need for insurers to ensure flexibility and convenience in the payments of insurance premiums so as to attract insurance customers.

As noted by Colombo & Tapay, (2003; 2004) the study found that Kenya Government through relevant agencies has recognized the important role that insurance plays in society and have taken an active role in both regulating the industry and incentivising the uptake of insurance. The Insurance Regulatory Authority (IRA) has come up with strategies to enhance increased insurance awareness and increased uptake of Insurance services. The Regulatory Authority also have stepped their efforts further with proper laws to safeguard the interests of the insurance services consumers and enhance confidence among consumers in regard to insurance products. The study findings are in line with Rapeti, (2009) goes a long way in ensuring a balance is achieved between competing goals of access, affordability and quality of insurance services.

With regard to contribution of income levels to insurance penetration the study findings are in agreement with Betts, (2004) who found that families with higher income level can have a higher chance of taking up insurance covers than persons drawn from poor backgrounds. The findings that people in some professions are more likely to uptake insurance is in line with Money & Mohan 2004 who argued that persons in profession such as doctors, bankers were more informed about financial services that other occupations such as farming.

The study findings that the contribution of education to the low insurance penetration in Kenya is unclear is contrary to the findings by Browne et al., (2000), Beck & Webb, (2003) & Mills, (2005) who argued that education forms a basis for one to understand the importance of seeking certain financial services such as insurance.

The study finding on the contribution of demographic factors towards the low insurance penetration in Kenya is in agreement with Olsberg, (2004) who found that gender had an effect on uptake of insurance services and also Gerrans & Clark-Murphy, (2010) who found that family issues and structures had an effect on insurance services consumption.

References

Akotey, O. J., Osei, K. A., Gemegah, A., (2011) "The demand for micro insurance in Ghana", *Journal of Risk Finance*, The, Vol. 12 (3) pp.182 - 194

Awino M. A., (2008) *Responses of Kenya Reinsurance Corporation to the Challenges of Globalization of the Reinsurance Industry*, Unpublished MBA Project, University of Nairobi

Beck, T., & Webb, I. M. (2002). *Determinants of life insurance consumption across countries* (Vol. 2792). World Bank Publications.

Browne, M. J., Chung, J., & Frees, E. W. (2000). International property- liability insurance consumption. *Journal of Risk and Insurance*, 73- 90.

Browne, M.J., Kim, K. (1993), "An international analysis of life insurance demand", *Journal of Risk and Insurance*, Vol. 60 pp.616-34.

Campbell, R. A. (2012). The demand for life insurance: An application of the economics of uncertainty. *The Journal of Finance*, *35*(5), 1155- 1172.

Dowd, K. (2007). *Measuring market risk*. Wiley.

Foong, S., Idris, R., (2012) "Leverage, product diversity and performance of general insurers in Malaysia", *Journal of Risk Finance*, The, Vol. 13 (4) pp.347 – 361

Gerrans, P., & Clark-Murphy, M., (2010). Asset allocation and age effects in retirement savings choices. *Accounting & Finance*, *50*(2), 301-319.

Kariuki G.N., (2007) *A Survey Of Key Success Factors For Firms In The Insurance Industry In Kenya Industry In Kenya*, Unpublished MBA Project, University of Nairobi

Lai, G.C., Limpaphayom, P. (2003), "Organisational structure and performance: evidence from the nonlife industry in Japan", *The Journal of Risk and Insurance*, Vol. 70 No.4, pp.735-57.

Leftley, R. (2002), *An Overview of Insurance Product Design Within the Opportunity International Network*, Opportunity International, Technical Services Division.

Olsberg, D. (2004), "Women and superannuation: still MS..ing out", *Journal of Australian Political Economy*, No.53, pp.161-78.

Rapeti N., (2009), *Health Insurance Market Penetration in India*, Post Graduate Diploma Project Report, Madras School of Economics available at

Sebstad, J., Cohen, M., & McGuinness, E. (2006), "Guidelines for market research on the demand for micro insurance", *For USAID under the Accelerated Microenterprise Advancement Project (AMAP□)*, .

Sinha, S. (2002), *Strength in Solidarity: Insurance for Women Workers in the Informal Economy*, Self Employed Women's Association (SEWA), Ahmedabad,

Tenkorang, D.A. (2001), "Health insurance for the informal sector in Africa: design features, risk protection and resource mobilisation", CMH Working Papers Series, Paper No. WG3:1, .

Webb, I.P., Grace, M.F., Skipper, H.D. (2002), "*The effect of banking and insurance on the growth of capital and output*", Robinson College of Business, Georgia State University, Atlanta, GA, Center for Risk Management and Insurance Working Paper 02-1, .