THE IMPACT OF PRICE REGULATION ON THE PENETRATION OF INSURANCE IN KENYA. A STUDY OF THE REGISTERED INSURANCE COMPANIES IN NAIROBI COUNTY

Mwongela, J. N., Muema, W., & Muriithi, S. K.

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 7, Iss. 4, pp 1583 – 1588. December 17, 2020. www.strategicjournals.com, ©Strategic Journals

THE IMPACT OF PRICE REGULATION ON THE PENETRATION OF INSURANCE IN KENYA. A STUDY OF THE REGISTERED INSURANCE COMPANIES IN NAIROBI COUNTY

Mwongela, J. N., [1*] **Muema, W.,** [2] **& Muriithi, S. K.** [3]

[1*] MBA Student, Kenya Methodist University [KEMU], Kenya
[2] PhD, Senior Lecturer of Statistics, Kenya Methodist University [KEMU], Kenya
[3] Senior Lecturer, Kenya Methodist University [KEMU], Kenya

Accepted: December 1, 2020

ABSTRACT

Insurance plays a critical role as a safety net in the face of a loss and unforeseeable risks. It is well understood and explained as a social means to mitigate risk connected to the loss of life or property. A significant benefit of insurance to an economy is its ability to facilitate economic growth by according the players a stable platform through which economic processes can function flawlessly. The study aimed to find out the impact of price regulation on the penetration of insurance in Kenya. It was that the insurance sector in Kenya was served by 55 insurance companies and 8,700 insurance agents yet still the insurance penetration index remained low. Indeed, despite the significant increase in insurance companies and insurance agents, over the last ten years, the country's insurance penetration level has lingered at 3.01%, an index comparatively lower than Africa continent's average of 3.8%. Kenya's low penetration level of insurance products, in effect, denies the country social and economic development. A population of 110 respondents was drawn from the 55 insurance companies; a unit manager and a marketing manager. The study employed the census method: all the managers from the two categories were included in the study. Structured questionnaires were used to collect the data, these were dropped and picked after completion. Descriptive statistics and inferential statistics were run on the data set to inform interpretation and discussion in line with the objectives. The results indicated that price regulation is significantly associated with insurance penetration in Kenya. The odds of insurance penetration would be 2.083 times more with price regulations than without price regulations. Moreover, regulation on pricing involving setting of price models, price listing, price change processes, setting of minimum and maximum prices for insurance products, within the regulatory framework have significant influence on insurance penetration.

Key words: *Regulatory Framework, Price Regulation, Insurance Penetration*

CITATION: Mwongela, J. N., Muema, W., & Muriithi, S. K. (2020). The impact of price regulation on the penetration of insurance in Kenya. A study of the registered insurance companies in Nairobi County. *The Strategic Journal of Business & Change Management,* 7 (4), 1583 – 1588.

INTRODUCTION

The Kenya Insurance Act, 2015 defines insurance as the business that involves liability undertaking through insurance (including reinsurance in case of any damage or loss such as personal injury, life loss, and personal injury including liability to compensate the damage, contingent upon a specified event occurrence. Insurance is an important component in business because it provides financial protection against loss of key men in an organization. Insurance over time has appealed to many people by the role it plays as a safety net in the face of a loss and unforeseeable risks. It is well understood and explained as a social means to mitigate risk connected to the loss of life or property. A significant benefit of insurance to an economy is its ability to facilitate economic growth by according the players a stable platform through which economic processes can function flawlessly.

On pricing of insurance products, the Insurance Regulatory Authority Guidelines (2013) offers guidance to the market in regards to price modeling. The guidelines provide that to price a particular product the insurer has to factor in claims costs' estimation and various business costs that may arise from the product and the determination of income from the investment that arises from the premium income's investment attached to the product. Moreover, upon the rolling out of a product into the market, if the returns realized differ from the expected returns, factoring in the provided estimations, then there is a price risk. To this end, the regulations guide that there should be sufficient room, well defined structure and levels, during pricing for independent reviews, consultations and involvement of actuarial expertise especially for large scheme products or complex products. As well, the guidelines stipulate that pricing should also reflect ongoing developments in the market that reflect on the prices, for instance loss and profit analysis to keep tabs with the performance of the balance sheet owing to the movements of prices in the market.

Importantly, the guidelines have the consumer in mind; they stipulate provisions to the end that there is fair treatment of customers. Some of the critical elements as far as consumer protection is concerned touch on formulating and selling out of insurance products in a manner that takes into consideration the concerns of consumers, including straightforward information about the product prior to its sale, in the period during and after the sale, full disclosures of products and scope of risk covered, relevance of the products being sold. In light of these provisions within the regulatory framework, the current study was set to establish the effect of insurance price regulation on the penetration of insurance in the county.

The insurance penetration ratio represents the worth in gross insurance premium underwritten in a given year as a proportion of the Country's Gross Domestic Product. This in essence, gives an indication of the depth of penetration in insurance of a given economy. The low insurance penetration index in the Kenyan insurance market is hard to explain more so in light of the presence of 55 insurance companies, and a staggering figure of almost 10,000 insurance agents through which insurance is distrusted. In the year 2012 the number of registered insurance companies stood at 53 and the number of registered insurance agents were 5,000 and even so the penetration rate remained at 3.0%. according to IRA's annual report of 2018, five years down, 2013 to 2018, the number of insurance companies grew to 55 while registered agents increased from 5,000 to 8,700. Low penetration of insurance products in Kenya has denied financial support to business and human life. Many Kenyans have either been injured or killed in accidents and as bread winners leave their families in poverty because the presence of, for example, life assurance cover would have provided the family income necessary to restart their lives in the absence of the bread winner. Low penetration of insurance products in Kenya denies the government the opportunity to borrow and invest funds that can be collected by insurance companies through premiums.

The study sought to establish how price regulation models within the regulatory framework affect penetration of insurance in Kenya, how setting of minimum and maximum prices for insurance products impact penetration of insurance in Kenya and to determine how price changes processes influence penetration of insurance in Kenya.

METHODOLOGY

The study made use of a descriptive research design enabling the researcher to collect quantitative data, and subsequently to do quantitative data analysis. Results were presented in descriptive and inferential statistics.

Unit managers and Marketing managers in the 55 insurance companies were the target population for this study. The suitability of the managers as the respondents was due to the roles they play in their companies as far as regulatory compliance matters such as distribution channels, product formulation, marketing, insurance intermediation, as well as implementation of regulatory requirements are concerned. Moreover, these officers are in the implementation of company business strategies at the operational level. Structured questionnaires, in line with the objectives were administered to the respondents through drop and pick method. The questionnaires were self-administered.

Two (2) respondents were drawn from the 55 insurance companies for inclusion into the study, through a census method, bringing the total respondents to 110, working in the capacities of unit managers and marketing managers.

The data collection response rate was 78.2%; 86 questionnaires out of the 110 administered were returned, adequately completed, a sufficient response to guarantee data analysis, interpretation and drawing of conclusions. The data collected was analyzed in Statistical Package for Social Sciences (SPSS) version 21 and presented in descriptive statistics including percentages, standard deviation, frequency and mean to profile characteristics and main patterns emerging from the data. Inferential statistics as well was computed giving inferences on the population studied, in particular, bivariate logistic regression model was applied to investigate the relative significance of each of the three elements of price regulation in light of insurance penetration in the Kenyan market.

Logistic regression is defined as;

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

Explained as:

logit (p) = $b_o + b_1X_1 + b_2X_2 + b_3X_3 + \ldots + bnXn$.......... 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

$X_1 \ldots_{n=}$ explanatory variables

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

RESULTS AND DISCUSSION

Insurance Penetration and Price Regulation

The analysis results disclosed that, in regards to insurance regulation touching on pricing; price models, price changes processes, setting of minimum and maximum prices for insurance products, as spelled out in the regulatory framework have a significant influence on insurance penetration. Table 1 provided the descriptive statistics on pricing regulation components, as per the respondents (scale used is 1-5: 1=strongly agree, 5=strongly Disagree). In varying proportions, the highest mean was below a 2-point index representing a strong agreement with the statements in regards price regulation in its entirety affects insurance consumption in the county. These results revealed that regulations addressing prices and pricing of insurance products influence 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 three aspects; price regulation models adopted within the regulatory framework, setting of minimum and maximum prices of insurance products, and price change processes of insurance products within the regulatory framework, the aspect on price change processes had the lowest score (mean of 1.43) representing a 'strongly agree' inclination with a majority of respondents.

Table 1: Price Regulation

Components of price regulation	Mean	Std. Dev
The price regulation models adopted within the regulatory framework significantly influence insurance penetration in Kenya	1.92	0.800
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

Bivariate Logistic Regression Results

Variable	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

The results indicated that price regulations are significantly associated with insurance penetration in Kenya. The odds of insurance penetration would be 2.083 times more with no price regulations than when with price regulations. The P value (0.044) indicated that the association was significant at 5% level.

Making reference to the report by Berry-Stolzie, Thomas & Patricia (2017) which disclosed that regulation had influence on the cost of insurance and that the factors influencing the cost of insurance differ significantly under a regulation regime compared to when there is no regulation to pricing in place, the current study indeed confirmed that regulation touching on insurance pricing (setting of price limits, regulations on pricing models, and price change processes), have influence on the uptake of insurance. The implications being that in a regulated environment, insurance prices are set within competitive thresholds and not allowed to exceed set limits, giving all the players value for business.

CONCLUSION AND RECOMMENDATION

In regards to the effects of price regulation on insurance penetration in Kenya, it is apparent that the pricing component in the insurance business is a complex balance between many competing variables: to say that if the premium is elevated, likely, the product uptake will be low majorly due to the fact that the market will perceive the product as of insignificant value or unaffordable. Particularly this is the case for the households that are low-income with financial means that are limited. Secondly, in a situation where the uptake of these products is low and over time, it does not pick, it cannot attain the essential scale and therefore not able to achieve sustainability. Moreover, this scenario brings into the stage increased anti-selection in that a product that is over-priced will only attract consumers who with time find value in it, i.e. those more likely to claim while insurance consumers that are of lower risk are likely to incline towards products that are of better value if they are available or they may fail to purchase insurance totally. The other side of the coin, in regards to insurance pricing and the role regulations play, is that, if the premium is quite low, the collected premiums cannot be enough to cater the claims among various expenses therefore rendering the insurer face a financial outcome that is poor for the insurer and this may necessitate significant price increase for the short term to maintain solvency and correct the inadequate pricing. The effects of this manifest in non-renewals of covers resulting in wasted investments already made in marketing and sales (Churchill et al, 2012). Furthermore, the market will likely lose confidence in the insurance providers.

Mutasa (2015) found out that income is a strong determinant of uptake of insurance, more so life insurance. He argues that the government should intervene by facilitating a market that is fair and economical through regulation to ensure insurance premiums within the reach, price wise, even to the low-income earners. The country's Insurance Regulatory Authority (IRA) has made commendable strides in laying the groundwork for a robust regulatory framework that will not only improve the insurance industry environment but also lead to pivotal and needful partnerships that will stimulate greater investor confidence. The study established that the current regulations touching on insurance pricing have a great effect on the insurance uptake in the country. Whilst insurance penetration is still quite low, Kenya's insurance sector is ready for investment and growth. Moreover, Kenya's insurance sector is likely to be the best potential investment market in Africa with more than a dozen acquisitions and mergers since 2014, such as the multinational players' arrival. This trend is envisioned to pick up going into the future. Notably, worldwide regulatory trends indicate that more stringent regulation and increased pressure to perform have the potential of spurring the insurance sector's prospects and boost investment. Particularly, on the international scene, more insurance regulators are becoming more intentional and keen on consumer protection and prudential management of their insurance companies.

The study recommended the following in light of the findings: -

Whilst price regulations significantly influence the penetration of insurance in the country, the study lumped together insurance (both life and non-life) together in its evaluation. This study recommended segmentation of the classes of insurance (life and non-life) then an evaluation of the influence of price regulation on the individual classes so as to inform on the magnitude of influence on each class as well as comparatively.

REFERENCES

Basaula, D. (2017). Customers Satisfaction towards Life Insurance Claim Settlement in Nepal. *Janapriya Journal of Interdisciplinary Studies*, *6*, 29-44.

Berry-Stölzle, T. R., & Born, P. (2012). The effect of regulation on insurance pricing: the case of Germany. *Journal of Risk and Insurance*, *79*(1), 129-164.

CIA (2008). *Life insurance costing and risk analysis*. Taskforce on life and health insurance costing products. actuaries.ca.

Obuba, C. W. (2014). *The effect of product pricing on the growth of micro insurance by insurance underwriters in Kenya* (Doctoral dissertation, University of Nairobi).

Donald R. Cooper, Pamela S. Schindler (2010). *Business Research Methods*. McGraw-Hill Education. New York

Tom, E. E., Ibok, I. N., & Awok, M. P. (2014). Factors affecting insurance consumption in Akwa Ibom state, Nigeria. *Global Journal of Business and pp*, *22*, 027.

Financial Services Commission of Mauritius (2003). Insurance penetration in Mauritius Report

Insurance Regulatory Authority Annual Report (2009) Insurance Practice report in the Kenyan Market.

Insurance Regulatory Authority Annual Results (2012 to 2017)

Kjosevski, J. (2012). The determinants of life insurance demand in central and southeastern Europe. *International Journal of Economics and Finance*, *4*(3), 237-247.

Re, M. (2005). Claims management following natural catastrophes: experience, analysis, action plans. *Munich Reinsurance Group, Munich*.

Mutasa, N. C. S. (2015). *Determinants of life and funeral insurance penetration and density in South Africa* (Doctoral dissertation, Stellenbosch: Stellenbosch University).

Summie, W. E. (2010). *A World-Class Insurance Industry. An Achievable Dream In Kenya* (Doctoral dissertation, University Of Nairobi).

Saunders, M., Lewis, P., & Thornhill, A. (2003). Research Methods for Business Students. Harlow: Pearson Educated Limited.

BAWA, S. K., & CHATTHA, S. (2016). Performance evaluation of the intermediary channels of life insurance industry in India. *Eurasian Journal of Business and Economics*, *9*(17), 51-65.

Yadav, R. K., & Mohania, S. (2014). Role of insurance ombudsman and grievance management in life insurance services in Indian perspective. *International Letters of Social and Humanistic Sciences*, *20*, 9-13.