

**EFFECT OF DISTRIBUTION CHANNELS ON INSURANCE
PENETRATION IN KENYA**

BY

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DECLARATION

I Michael Kamau Kamiru declare that this is my original work and has not been presented for a degree or any other certification in any other university.

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DEDICATION

I dedicate this research project to my loving wife Rosemary and our children: Melanie, Vanessa, Cynthia, Samuel and Gideon for their moral support and understanding whenever I stayed late to attend to assignments and develop the research project.

ACKNOWLEDGEMENT

My special gratitude goes to Almighty God for giving me the strength and wisdom to pursue this course.

I am very grateful to my supervisor Dr. Gladys Bunyasi for availing herself to offer guidance whenever I was in need. I appreciate the knowledge and skills that all my other lecturers have imparted in me throughout coursework.

I must admit humbly that the success of this research has been largely due to collaborative efforts and devotion of many people to who I owe a lot of gratitude. This research would have not been completed without their ultimate support.

May God bless you all.

ABSTRACT

Insurance penetration in Kenya is still low and this has been attributed to low level of awareness in the market about its benefits and the misconception that insurance is only for the affluent members of society. The insurance sector in Kenya has traditionally been broker driven with over 80% of the non life business procured through brokers and a few independent agents. Regrettably, these intermediaries are concentrated in the major towns and largely lack the capacity to service large areas of the countryside. The general objective of this study was to determine the effects of distribution channels on insurance penetration in Kenya. This study was led by the following specific objectives: determining the effects of intermediary channels on insurance penetration in Kenya; establishing the effects of direct distribution channel on insurance penetration in Kenya; and determining the effects of internet based channels on insurance penetration in Kenya. The study adopted a descriptive research design targeting 51 underwriting managers in all insurance companies in Kenya. The study collected primary data using a semi structured questionnaire. The collected data was analyzed using mean, standard deviation, frequency distribution and percentages. The analyzed data was presented using tables and figures. The study found out that continued use of in-house agents, continued use of freelance sales agents and continued sale of insurance through insurance company branch network had improved insurance penetration in Kenya, direct distribution channel was a strategy that would help gain market penetration, using direct distribution channel for personalizing insurance products does well for sophisticated customers, direct distribution channel alleviate fears caused by a misconception of the insurance industry and direct channel creates awareness of insurance products to the market hence increase penetration and distribution of insurance products through internet based channels had improved gross premium underwritten, distribution of insurance products through internet based channels had created flexibility in applications, distribution of insurance products through internet based channels had enabled close monitoring by customers and the increase in mobile internet enabled phones had improved the uptake of insurance. The study concludes that intermediary channels are very important in enabling insurance companies widen their market through market penetration due to customer demand, direct distribution channel strategy help gain market penetration, does well for sophisticated customers, alleviate fears caused by a misconception of the insurance industry and internet based channels helped the insurance companies to distinguish themselves from their competitors through enabling mobile, online, e-marketing, telemarketing and branchless insurance for the customers. The study recommends that insurance companies should continue engaging the services of intermediaries in order to reach the large population of uncovered pool, direct distribution channel as a strategy of increasing insurance companies' services and products should not be limited to the customers visiting the companies and its branches but they should diversity to capture the wider market such as people who are not in their existing customer's database and although internet based channel has been able to reach wider market within short period and less costs there is also need for the insurance companies not to depend entirely on internet based channel distribution and marketing channels since majority of the Kenyans live in remote areas where technology has not taken root.

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LIST OF ABBREVIATIONS AND ACRONYMS

AIBK	Association of Kenya Insurance Brokers of Kenya
AKI	Association of Kenya Insurers
ATMs	Automated Teller Machine
B2B	Business to Business
E-mail	Electronic Mail
G7	Group of Seven
GDP	Gross Domestic Products
IRA	Insurance Regulatory Authority
R2	Co-efficient of determination
SPSS	Statistical Package for Social Scientists
VoIP	Voice over the Internet Protocol

DEFINITION OF KEY TERMS

Distribution Channel: An organized network of agencies and institutions that together perform all the activities required to link producers with users of a commodity or service to create. (Stem, El- Ansary, Andersso and Coughlan, 2006),

Insurance Penetration: the amount of insurance premium in a country expressed as a percentage of the GDP (Vaughan and Vaughan, 2008).

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter presents the introduction of the study. The sections covered include: background, statement of the problem, objectives of the study, research questions, significance, scope limitations and assumptions. These are discussed in details below:

1.2 Background of Study

The level of penetration of insurance in an economy is a function of the gross value of insurance premiums as a percentage of gross domestic products (GDP). This is achieved through indemnification and risk pooling which enable execution of commercial transactions and provision of credit facilities in an economy by mitigating the unforeseen losses. This is further achieved through measurement and management of non-diversifiable risk thereby enabling entrepreneurs to take on higher risks-higher return activities than they would do in the absence of insurance (Yego, Salbei and Kilonzo, 2014). This promotes higher productivity and growth in economic performance parameters. Insurance distribution is organized through several channels to ensure high outreach. Effective management of distribution of product is essential to those that determine the extent of insurance penetration in a country. Different customers have different preferences for the distribution channels adopted by the insurance companies. This therefore calls on insurance companies to adopt a variety of distribution channels to reach their targeted clientele. Companies choose distribution channels that ensure their product reach the targeted customers at the right time and convenient location (Kotler, Armstrong, Wong & Saunders, 2008). In General, distribution channels play critical roles in making the goods and services available to the target customers.

Globally, the level of insurance penetration has been low especially in the developing economies. Global statistics indicate that the Group of Seven (G7) alone accounts for almost 65% of the world's insurance premiums even though it covers just over 10% of the world's population. Despite the fact that insurance has been practiced for over a thousand years world over, its uptake is still very low all over the world over. This is

against the key role played by insurance in risk sharing. In Africa, South Africa remains the dominant market as it accounts for more than 90% of the regional life premium volume.

1.1.1 Distribution Channels

Several definitions have been advanced on distribution channels. According to the American marketing association, a distribution channel represents an organized network of agencies and institutions that together perform all the activities required to link producers with users of a commodity or service to create. According to Stem, El- Ansary, Andersso and Coughlan (2006), distribution channels are economic and socio-political forces that affect collective behavior and performance of a system. The distribution channels are normally determined by the changes in the operating environment. Stern et al. (2006) further argues that there is no ideal distribution channel for all products and services instead it is determined by exploring the needs of consumers in terms of service outputs received from the distribution channel. It further based on the amount of money they are willing to pay for a given service level and the way in which the services can be provided to them. This stretches further to cover the costs of the alternative distribution channels to the existing one and its impact on the final price.

Different industries and sectors adopt different distribution channels targeting different market segments. The channels range from electronic, branch networks, personnel based and intermediaries. Within the insurance industry, all insurance transactions involve an intermediary in the form of an insurance agent or broker, between the potential buyer and the insurer who plays the role of market maker. The intermediary helps buyers in identifying their coverage and risk management needs and matching buyers with appropriate insurers. As expressed by Cummins and Doherty (2005), intermediaries help in scanning the market, matching buyers with appropriate insurers who have the skill, experience, capacity, risk appetite, and financial strength to underwrite the risk, and then help their client select from competing offers. Developments in technology and customer sophistication have seen the introduction of bancassurance and internet based channels to complement the traditional branch and agency network channels. Bancassurance has

grown as more and more customers have bank accounts and have more trust in the banking industry than insurance industry. Development in information technology has also seen the introduction of internet based channels.

1.1.2 Insurance Penetration

The insurance penetration is measured using a ratio of gross value of insurance premiums as a percentage of gross Domestic Product (GDP). It is used as a measure of how deep a country's insurance market is. Vaughan and Vaughan (2008) define insurance penetration as the amount of insurance premium in a country expressed as a percentage of the GDP. The penetration rate indicates the level of development of insurance sector in a country. The higher the penetration rate is the more developed the insurance market in that particular country is. Insurance penetration in Kenya is still low & this has been attributed to low level of awareness in the market about its benefits & the misconception that insurance is only for the affluent members of society. In addition to this, a general lack of a savings culture, inadequate tax incentives & a perceived credibility crisis of the industry in the eyes of the public particularly with regard to settlement of claims have been cited as probable causes for a low insurance penetration in Kenya (Kogi & Maragia, 2011).

1.1.3 Insurance Industry in Kenya

The insurance industry in Kenya is governed by the insurance Act CAP 487 and regulated by the Insurance Regulatory Authority. It is regulated by the Insurance Regulatory Authority (IRA) which is a state corporation whose mandate is to regulate, supervise and develop the insurance industry in Kenya. Part one, section 2 (1) of the insurance act, CAP 487 of the laws of Kenya defines insurance business as a business of undertaking liability by way of insurance (including reinsurance), in respect of any loss of life and personal injury and any loss or damage, including liability to pay damage or compensation, contingent upon happening of a specific event...in return for payment of one or more premiums. The Insurance companies in Kenya operate under an umbrella body, the Association of Kenya Insurers (AKI), whose main objective is to promote prudent business practices, create awareness among the public and accelerate the growth

of insurance business in Kenya. AKI was established in 1987 and initially known as the Insurance Association of Eastern Africa. Membership is open to any registered insurance company (AKI, 2015).

The main players in the Kenyan insurance industry are insurance companies, reinsurance companies, insurance brokers, insurance agents, and the risk managers. The statute regulating the industry is the insurance Act; Laws of Kenya, Chapter 487. The industry recorded gross written premium of Kshs. 157.21 billion compared to Kshs. 130.65 billion in 2013, representing a growth of 20.3%. Industry earnings from investments and other income increased by 6.5% from Kshs. 42.76 billion in 2013 to Kshs. 45.55 billion in 2014 (AKI, 2015). From AKI, IRA and the AIBK to the insurance underwriters, experts in insurance are embracing a new strategy that is aimed at ensuring the industry commands the respect it deserves and that more customers are taking up the services in order to drive insurance penetration and counter the negative perceptions that insurers are just out to fleece their customers.

Other than the Insurance companies ,there are other players in the market comprising of 3668 Agents ,141 Insurance Brokers, 105 Investigators, 14 medical Insurance providers,23 Insurance surveyors, 8 Risk managers, 21 Loss Adjustors and 2 Reinsurance Companies. There are two main Associations which are The Association of Kenya Insurers (AKI) and The Association of Kenya Insurance Brokers of Kenya (AIBK). The regulating body of the industry is the Insurance Regulatory Authority. With the signing up of the East Africa Protocol accord in 2010, the territorial limits of operation have widened, and there is need for strategic approaches of reaching these new markets and increase penetration.

The insurance sector in Kenya has traditionally been broker driven with over 80% of the non life business procured through brokers and a few independent agents. Regrettably, these intermediaries are concentrated in the major towns and largely lack the capacity to service large areas of the countryside.

1.3 Statement of the Problem

In order to remain competitive and retain current market shares, firms have resorted to devise strategies that will enable them to penetrate more in the market hence increase their customer base and profits (Neslin and Shankar 2009). One of the key strategies involves the distribution of goods and services so as to create the place value. Companies choose distribution channels that ensure their product reach the targeted customers at the right time and convenient location (Kotler, Armstrong, Wong & Saunders, 2008). The adoption of these diverse distribution channels offer businesses an opportunity to reach out to customers more easily. The various channels also make it easy for target as well as current customers to comprehensively complete any desired conversations with potential firms where they would be willing to make a purchase (Rosenbloom, 2007).

The insurance industry has registered dismal performance in terms of gross premium written following low levels of penetration. Several studies have been done on the effects of various distribution channels and penetration of insurance services both globally and in Kenya. For instance, Gitau (2013) examined strategies adopted by Kenyan insurance companies to alleviate low insurance penetration. The study identified causes of low penetration as including: lack of knowledge and awareness by the general public about insurance products and the benefits, negative perception, cultural and religious beliefs like merry go rounds and harambee mentality, inappropriate products, and limited distribution channels. Nzenga (2013) looked at the factors affecting the growth of life insurance business in Nairobi Kenya and established that professional training of life insurance sales staff was lacking. Wairimu and Okibo (2015) examined factors influencing micro insurance penetration among middle and low income earners in Kenya using a case study of Kisii County, Kenya. Their findings indicated a significant relationship between distribution channels, professional sales training, government regulations and penetration. The existing studies have been undertaken on different variables from the ones adopted in this study. Besides, some of these studies have been undertaken in regional contexts which may limit the application of this study to other parts in the Country. The current study therefore seeks to fill this research gap by seeking to determine the effects of distribution channels on insurance penetration in Kenya.

1.4 Objectives of the Study

1.4.1 General Objective

The general objective of this study was to determine the effects of distribution channels on insurance penetration in Kenya.

1.4.2 Specific Objectives

This study was led by the following specific objectives:

- i. To determine the effects of intermediary channels on insurance penetration in Kenya
- ii. To establish the effects of direct distribution channel on insurance penetration in Kenya
- iii. To determine the effects of internet based channels on insurance penetration in Kenya

1.5 Research Questions

- i. How do intermediary channels affect insurance penetration in Kenya?
- ii. What are the effects of direct distribution channels on insurance penetration in Kenya?
- iii. What are the effects of internet based channels on insurance penetration in Kenya?

1.6 Justification

The insurance industry plays an important role in the development of an economy by allowing investors an opportunity to share and transfer their risk exposure. By doing this, entrepreneurs are able to take on more risk than they would if there was no insurance hence spurring economic growth. In order to secure more and more assets and their interests in the economy, the level of insurance penetration needs to increase. This has seen the invention of various new distribution channels with the aim of boosting outreach of insurance.

1.7 Significance of the Study

The various insurance companies operating in Kenya would benefit from the study in that they will learn of how the various distribution channels affect their outreach in the Kenyan market. The information availed through this research would inform their future

distribution decisions to ensure that they grow their market share and reach out to those excluded from insurance services.

The findings of this study would be important to the regulator of the insurance industry – Insurance Regulatory Authority (IRA) in Kenya in the formulation of policies and regulations to ensure a stable insurance industry. Through the findings of this study, policy makers would develop appropriate policies to ensure greater insurance penetration.

The findings of this study would also be important to future researchers and academicians by acting as an empirical source besides suggesting areas for further research. This study would suggest areas for further research where they can extend knowledge on.

1.8 Scope of the Study

This study adopted a descriptive research design and was carried out within the 51 licensed insurance companies in Kenya based in Nairobi head offices since they can be easily accessed. The target population of this study was 51 underwriting managers in insurance companies in Kenya as at May, 2016. The study was limited to the distribution channels identified in the research objectives. The objectives of the study are intermediary channel, internet based channels, and direct distribution. The study was undertaken in the Month of July, 2016.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the various researchers done by various scholars and authors on the effects of distribution channels on insurance penetration. The specific sections covered here include the theoretical framework where the theories guiding the study are outlined, empirical literature, conceptual framework, hypotheses and operationalization framework.

2.2 Theoretical Framework

This study is based on the risk theory which explains how individuals go about making decisions on how to approach a risky event faced with uncertainty. The study further anchored on probability theory which measures the likelihood that something will happen therefore inform the resultant scenarios thereby enable investors plan themselves accordingly. The study also reviewed the rational expectancy theory which deals with a rational human being and how they go about making their decisions.

2.2.1 Risk Theory

Risk Theory was developed by Hawley (1983) in an attempt to explain the risk-return consideration among businessmen. The theory holds that business enterprises are faced with high levels of uncertainty as a result of the environmental turbulence. The likelihood of a foreseen adverse activity occurring and negatively affecting the business operations influenced individuals to take up insurance policies (Criel, 1997). This theory attempts to explain how individuals go about making decisions when they are faced with uncertainty about the future. According to Schneider (2004), the key theories that analyze decision-making under uncertainty include: the expected utility, endowment effect, state-dependent utility, status quo bias, regret and disappointment paradigms, and prospect theory.

Some of the studies that have applied the risk theory include: Nyorera and Okibo (2015) while studying the factors affecting uptake of national hospital insurance fund among

informal sector workers a case of Nyatike Sub-County, Kenya. The study used the risk theory in explaining why individuals take up insurance covers. This theory assumes that general public is risk averse and thus in order for them to take up insurance covers for their businesses and lives, they are influenced by the effects of the foreseen event occurring and negatively affecting their day today way of life (Dickson, 2002). This theory is relevant for this study because insurance is all about risks and how one can mitigate the effects of any eventual event occurring. This theory explains the role of different intermediaries in the insurance market and how they diffuse key information for greater insurance penetration.

2.2.2 Consumer Theory

This study further anchored on the Consumer theory which holds that consumers decide on how to allocate their scarce resources optimally in line with the information available with the aim of optimizing their utility. The consumers' demand of a given commodity is governed by their preferences depending on the utility derived from them. Consumers bear different preferences over different combinations of goods and services. In addition, the amounts and proportion of each good or service purchased by an individual are influenced by overall changes in prices and their income. Schneider (2004) explains that insurance is a normal good with a positive income elasticity of demand which means that poor individuals are less likely to take up insurance covers. This is one of the theories on decision-making under uncertainty that describe insurance enrolment and hence the level of penetration.

2.3 Empirical Review

2.3.1 Intermediary Channels on Insurance Penetration

Insurance companies and players in the industry have adopted penetration strategies so as to increase their market share of their existing and new products through promotional activities such as branding, advertising, marketing and giving discounts to their customers. Many companies state their primary challenge for growth as getting their products and services in front of potential and actual customers.

According to Feyen, Lester and Rocha (2011) in their study: What drives the development of the insurance sector? Insurance companies and players in the industry had adopted penetration strategies so as to increase their market share of their existing and new products through promotional activities such as branding, advertising, marketing and giving discounts to their customers. Many companies state their primary challenge for growth as getting their products and services in front of potential and actual customers (Feyen, Lester & Rocha, 2011). The existence of traditional branch networks, intermediaries served to reduce the level of insurance penetration because of the long bureaucracies involved in the whole insurance processes.

Ngoima (2011) did a study on the effects of insurance agents in insurance penetration in Kenya. The targeted 45 insurance companies as the study population and the findings revealed that the roles of insurance intermediaries which included the market maker, transformation insurance agents, reduction of participation costs and service provision showed goodness fit as shown by a co-efficient of determination (R^2) to be 0.7338. This result therefore indicates that the aforementioned roles of insurance agents explain 73.38% of the insurance companies' penetration in Kenya. Thus even in this modern world the traditional use of insurance agents and brokers can make a significant change in fostering market penetration for the insurance companies (Ngoima, 2011).

Ndalul (2011) studied the relationship between economic growth and insurance penetration in Kenya. The study employed a causal study design with the study period being six years from 2003-2008 while using the secondary data from published IRA & CBS reports. The study used simple regression analysis to examine the association between economic growth and insurance penetration and a forecasting model was developed and tested for accuracy in obtaining predictions (Ndalu, 2011). The study proposed enacting a modern legal framework and designating a special judicial authority to handle insurance related cases as key requirements to enable market development hence increasing insurance penetration and therefore overall economic growth (Ndalu, 2011).

Malik (2011) in the research on the determinants of insurance companies' profitability: an analysis of insurance sector of Pakistan. Found even in this modern world full of advancement and new technologies, there is still room for the traditional/ conventional way of selling insurance products as dictated by our cultures. Our culture can still be incorporated into the insurance penetration strategy and gain the organization success through increased market size, increase volumes in terms of uptake of policies and increased profitability through high premiums that are paid by the policy holders. Malik (2011) further mentions that with the right strategies and adopting a mixed approach between the traditional way of using agents and a bit of modern technologies could further increase sales and the insurance companies' products' presence in the market.

2.3.2 Direct Distribution channel on Insurance Penetration

The insurance industry has struggled a lot in its aim to penetrate the market and get more clientele and this has forced the management to re-think on the strategies that would help gain market penetration. Outreville (2011) in the study on the relationship between insurance growth and economic development: 80 empirical papers for a review of the literature, mentions that many channels that would aide in distribution have to be thought through to see that it is fit and will work. Direct distribution is one of the many channels that are forwarded for consideration (Outreville, 2011).

Chen and Chang (2010) in a journal on Distribution channel strategy and efficiency performance of the life insurance industry in Taiwan. Because of the changes in laws and regulations that affected the insurance industry, many of the life insurance companies in Taiwan have had to adjust and adopt new marketing strategies. This study sampled 24 life insurers that operated in Taiwan from the years 1997 to 2006 and the changes in marketing strategy and how it affected its penetration in to the market. The study compared the efficiency scores before and after the adoption of the new and current marketing strategy and distribution channel strategy. The results suggested that a direct distribution channel strategy performed better than a non-direct distribution channel strategy or any other distribution channels in terms of efficiency and productivity change. This means that direct distribution channel strategy fared much better than other distribution channels. The study recommends the use of direct distribution channel

strategy while marketing the insurance company products' although other technologically enhanced channels shouldn't be ignored.

Chaudhury and Das (2015) in a journal on the trends in Marketing of New Insurance Schemes and Distribution: An Empirical Study on Indian Life Insurance Sector. The study mentions four main challenges that face the insurance industry as distribution, customer service, product innovation and investments. The study further reveals that personalizing insurance products and using direct distribution channel would increase penetration as the customer awareness is rising and their needs are more varied thus require customized products and flexible products. The study concludes that finding a niche market, right product mix, effective branding and product differentiation will increase the customer base, increased collected premiums and increase in presence in the market through increased penetration.

Onduso in (2014) on the factors influencing penetration of micro-insurance in Kenya, mentions that with an increase in the information, knowledge base and awareness among people in the urban areas means that to increase penetration; the pricing methodology applicable must be as per the specific needs of each customer and custom-made insurance products to capture each client needs and wants. This would be an answer to the increase in customer expectations and awareness, and especially in the recent past years, as they demand better and speedy service, accurate pricing and customized solutions.

Gitau (2013) did a study on Strategies adopted by Kenyan Insurance Companies to alleviate low insurance penetration. The study mentions the many factors that have caused low Insurance penetration in Kenya. Some of the factors mentioned, include: negative perception and misconceptions of the insurance industry, lack of or insufficient knowledge and awareness on Insurance products and its benefits to the policy holders, inappropriate products, cultural and religious beliefs and limited and ineffectual distribution channels. Amongst the other challenges that insurance company's face in Kenya is the legalese language in the policy paper print that is confusing and has hidden meaning in its print, these has worked negatively in the effort to penetrate the market and bad publicity has greatly affected this industry. Whenever one insurance company fails to honor its promises to its client, this information is spread and generalized to all insurance companies in the industry.

With these challenges the insurance industry has embarked on serious marketing to gain market presence and penetrate the market. Some of the strategies adopted include improvement of distribution channels and using the traditional and modern distribution channels. Another way is identified as creating consumer education or awareness of the different products and the benefits accrued from taking up a policy. It is also be introducing regulatory measures such as Insurance Regulatory Authority (IRA) that regulates the insurance industry. The study recommends a keen interest on the factors that could increase insurance uptake and increase in penetration and this includes improvement in distribution channels, customer service, review of products and consumer education and awareness.

2.3.3 Internet Based Channels on Insurance Penetration

Akoth (2011) studied the strategic responses by Jubilee Insurance to changing competitive environment. The study found out that the using technology to access information about the economic behavior of customer segments provides valuable insights about insurance-selling opportunities. And at Jubilee insurance the use of internet based programs has enabled them to grow in terms of market size, numbers of clients with policies with them and profitability. The use of internet has enabled them to penetrate the insurance market which in the past was very difficult to penetrate. For instance, customers buying a home through a bank mortgage can be approached for a variety of insurance products. Kaguri (2013) states that with a traditional insurer, behavioral information about policy holders is usually unavailable, but even when known; it can only be employed by agents who have an economic interest in thwarting a direct relationship between the company and the client. Bancassurers should use technology to simplify the insurance purchase as much as possible, thereby making the purchase an easier, more pleasant experience and further differentiating themselves in the process. Buying insurance in the traditional way means dealing with agents and the complications of the underwriting process, which banc assurance can eliminate and simplify the whole process (Akoth, 2011).

Murigu (2014) while looking at the determinants of financial performance in general insurance companies in Kenya; found out that in the past most insurance products were sold via direct distribution. This is where the insurance products were sold through the

insurance sales agents and brokers but with the invention and advancement of technology, penetration has improved greatly. Since insurance sales agents and brokers failed to yield the results that is the market penetration for the insurance companies, then internet based channels were adopted. Chikweche and Fletcher (2012) stated that the usage of social networks like groups for the youths and women have helped build awareness of the available products and policies offered by insurance companies and opened a channel of communication, whereby the organization can get feedback on what the potential and current customers are saying about their products, policies and services they are getting.

Another study done by Onduso in (2014) on the factors influencing penetration of micro-insurance in Kenya; the study showed that there was a great need for insurance services even among the low-income earners or the poor groups who are more vulnerable to diseases, insecurity that may lead to death, unexpected expenses and natural disasters; therefore there is a need to reach this group of people and mitigate their risks. The study found that a range of products were being offered under the micro-insurance products which targeted agriculture and livestock farmers, personal accident for students on attachment, loan insurance for small traders, health products. The payment mode for the insurance premiums was majorly through M-pesa and the policies holders thought this form of payment was effective, fast and efficient. Thus the use of internet based channel in making payments has satisfied the customers and enabled the micro-insurance companies to expand and grow in terms of market size, presence in a wide region and profitability.

Kitua (2009) did a study on the internet as a source of competitive advantage for insurance firms in Kenya. The study revealed that majority of the insurance companies use Electronic mail (E-mail) to sell their products and services to clients on a daily basis. The insurance companies also use the social media platforms like facebook accounts, twitter handle and pop-ups on the internet to advertise and influence customers to buy their products. Furthermore many of the insurance companies have a current website running with all the information that a potential customer may seek on their services, processes and policies (Kitua, 2009). Others internet enabled channels included blogs,

content management, corporate intranet, Information gateways, intelligent messaging, video conferencing, internet relay chat, Meta search engines and the World Wide Web for B2B/B2C. Other products and services used to a high extent were Telecommunication Network, Videophone, VoIP services, Electronic mail and mobile internet phones (Kitua, 2009).

2.4 Conceptual Framework

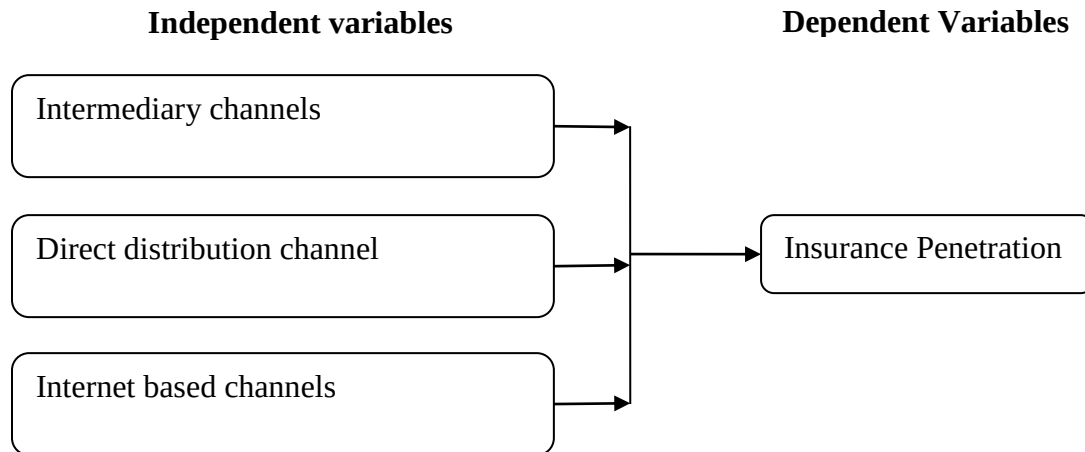


Figure 2.1: Conceptual Framework

Source: Author (2016)

2.5 Hypothesis

H₀₁: Intermediary channels have no effect on insurance penetration in Kenya

H₀₂: Direct distribution channel has a positive effect on insurance penetration in Kenya

H₀₃: Internet based channels have a positive effect on insurance penetration in Kenya

2.6 Operationalization of Variables

Table 2.1: Operationalization of Variables

Objective	Variable Type	Indicators	Type of data analysis
To determine the effects of intermediary channels on insurance penetration in Kenya	Independent Intermediary channels	• Use of sales agents • Using of brokers • Use of long paperwork processes	Descriptive Regression
To establish the effect of direct distribution channel on insurance penetration in Kenya	Independent Direct distribution channel	• Use of insurance agents • Increase of knowledge and awareness of products • Improved distribution channel	Descriptive Regression
To determine the effects of internet based channels on insurance penetration in Kenya	Independent Internet based channels	• Social networks • Mobile money transfer channels i.e. M-pesa • The internet sites	Descriptive Regression
	Dependent Insurance penetration	• Gross Premium underwritten as a percentage of GDP	Descriptive Regression

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this section the research identified the procedures and techniques that was be used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, data collection and data analysis.

3.2 Research Design

Research design provides a framework of the methods and the procedures for collecting and analyzing data (Yin, 2013). This study adopted a descriptive research design as the respondents will be required to give a description of the what, where, when, how on the effects of distribution channels on insurance penetration in Kenya. According to Sekaran (2010), descriptive research describes elements as they exist in their natural setting and it has a purpose to observe, describe and document aspects of a situation as it naturally occurs and it seeks to establish factors associated with certain occurrences, outcomes, conditions or types of behavior. Descriptive design sought to ask who, what, where, how or how much. It sought to find out as much as possible instead of using prepared models or guesswork. It leads to deriving data that is statistically inferable and more accurate as it probes to get the reason that led to such an answer (Yin, 2013).

3.3 Target Population

Population refers to the entire group of people, items, and things of interest that the researcher wishes to investigate. It comprises of a selection of members from that particular population on whom the researcher wishes to generalize the findings. Target population refers to a well-defined or set of people, services, elements, events, group of things or households that are being investigated (Fowler, 2013). It represents the specific population about which information is desired. The target population of this study was 51 underwriting managers in insurance companies in Kenya as at May, 2016.

3.4 Sampling Frame

Sampling frame describes the list of all population units from which the sample is to be selected (Fowler, 2013). A sample is a set of data collected or selected from a statistical

population by a defined procedure. In determining the sample size qualitative factors need to be considered including nature of the research, expected outcomes, importance of the findings, and number of variables to be studied, nature of analysis and resource constraints. Quantitative factors including variability of the population characters may need a larger sample size due to high variability of the account holders.

For this study, a census study was adopted since the population is small at 51 underwriting managers in the 51 insurance companies in Kenya all with operational head offices within Nairobi. The importance of census is that the data was collected from the whole population and the findings included the opinions and views from all the population under study. Thus the findings are from the entire population hence more representative.

3.5 Instrumentation

This research collected primary data using questionnaires. The questionnaire used both open and closed ended questions. Closed ended questions were used so as to standardize the responses while open ended questions were used so as to provide the respondents with an opportunity to disclose more information relevant to the study. The questionnaire was chosen since it is cheap and easy to fill and to analyze due to their standard answers. The questionnaire is the most commonly used methods when respondents can be reached and are willing to co-operate. This method can reach a large number of subjects who are able to read and write independently.

A five point Likert scale was used for closed ended questions whereby the target respondents indicated the extent of their agreement/disagreement with each statement. The Likert scale of 1-5 whereby 1=strongly disagree, 2=Disagree, 3=Neutral, 4=agree and 5 strongly agree was applied for closed ended questions to standardize the responses and make it easy for the respondents to fill. The questionnaire contained six sections namely: demographic information and each of the three independent variables (intermediary channels, direct distribution channel and internet based channels) and their impact on the dependent variable of insurance penetration.

3.6 Data Collection Procedure

The researcher administered the instruments through a drop and picks later method so as to minimize the level of interruption in the target respondent's daily schedules. The respondents were required to fill out questionnaires by indicating their levels of agreement with various statements that were identified on each variable. The researcher made follow up calls to remind the respondents to fill and return so as to ensure a high response rate.

3.7 Validity and Reliability of Research

In order to ensure that the instruments used are valid and reliable, the researcher exposed them to validity and reliability tests. First, the researcher discussed the validity of the research instrument contents by discussing with the supervisor and evaluating how well they respond to the research questions for the study. Together with the supervisor, the researcher ensured that the instrument questions are relevant for the research questions. Any ambiguities and inconsistencies shall be checked and corrected.

To ensure reliability, the researcher carried out a pilot test on three regulators of the insurance industry in Kenya including: IRA, Association of Kenya Insurance and the College of Insurance. 10 employees from the regulators were used to test the research instrument the questionnaire. The data from the pilot test was analyzed using Cronbach's alpha (α) which determines the internal consistency of the research instrument, a coefficient value of above 0.6 implies that the research instrument the questionnaire is reliable thus appropriate for use in this study. According to Babbie (2004) a pilot study can comprise of between 4-10 members of the target population whose response will be used to improve on the data collection instrument. According to Bryman and Bell (2007), a pilot test helps to test the reliability and validity of data collection instruments. The researcher collated the responses and improvements suggested to improve the questionnaire.

3.8 Data Analysis

The questionnaires collected from the field were checked for consistency, cleaned, and the useful ones coded and entered into the Statistical Package for Social Scientists (SPSS)

computer software Version 22.0 for analysis. The researcher analyzed the quantitative data using descriptive statistics including: frequencies, percentages, means and standard deviations. The qualitative data was coded thematically to ensure a coherent flow of the analysis. Content analysis was used for data that is qualitative in nature or aspect of the data collected from the open ended questions.

The information was presented using tables and graphs. Measures of central tendency (mean, standard deviation and percentages) were applied for quantitative variables. Pearson's correlations analysis was conducted at 95% confidence interval and 5% confidence level 2-tailed to determine the extent to which the distribution channels affect insurance penetration in Kenya. If the relationship established is found to be positive, then this would indicate that there is a correlation between the distribution channel and insurance penetration in Kenya.

In addition, the study conducted an inferential statistics in the form of multiple regression analysis using the model below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon_i$$

Where Y = Insurance Penetration (Gross Premium divide by Gross Domestic Product)

X_1 = Intermediary Channels

X_2 = Direct Distribution Channel

X_3 = Internet Based Channels

ϵ_i = Error Term

β_0 = Constant in the regression model that shows the value of insurance penetration in the absence of the independent variables.

3.9 Ethical Considerations

Ethics is concerned with norms governing human conduct which have a significant impact on human welfare (Sekaran, 2010). It involves making a judgment about right and wrong behavior during the research period. The researcher obtained permission from the respective insurance companies to collect data from them. In addition, the researcher

obtained an introduction letter from KCA University to confirm to the respondents that the data sought was used for academic purposes only.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATIONS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis and findings of the study as set out in the objective and research methodology. The general objective of this study was to determine the effects of distribution channels on insurance penetration in Kenya. Data was collected using questionnaires as the data collection instruments and summarized by use of descriptive statistics which involves the use of frequency tables, percentages, mean and standard deviation.

4.1.1 Response Rate

A total of 51 questionnaires were distributed out of which 37 questionnaires were filled and returned giving a response rate of 73%. This response was good enough and representative of the population and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 70% and above is excellent. These findings are well illustrated in the Figure 4.1.

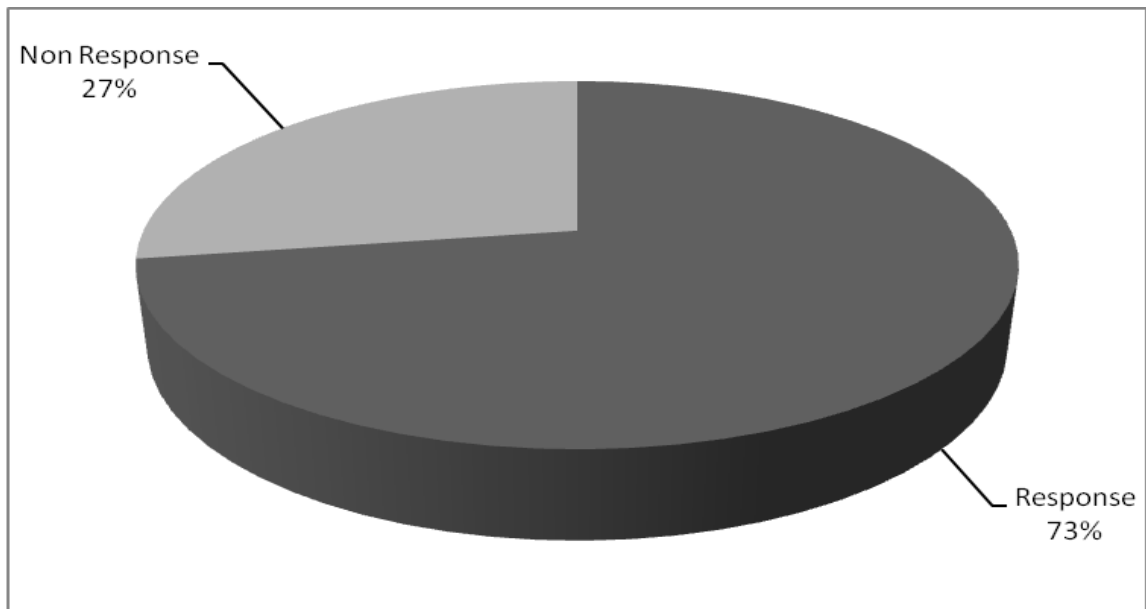


Figure 4.1: Response Rate

4.2 Background Information

The researcher sought to determine the background information of the respondents and the results are as explained in the subsequent sections. This was aimed at establishing the suitability of the responses in providing data relevant for completion of this study.

4.2.1 Gender Distribution

The respondents were asked to indicate their gender. The findings are illustrated on Figure 4.2.

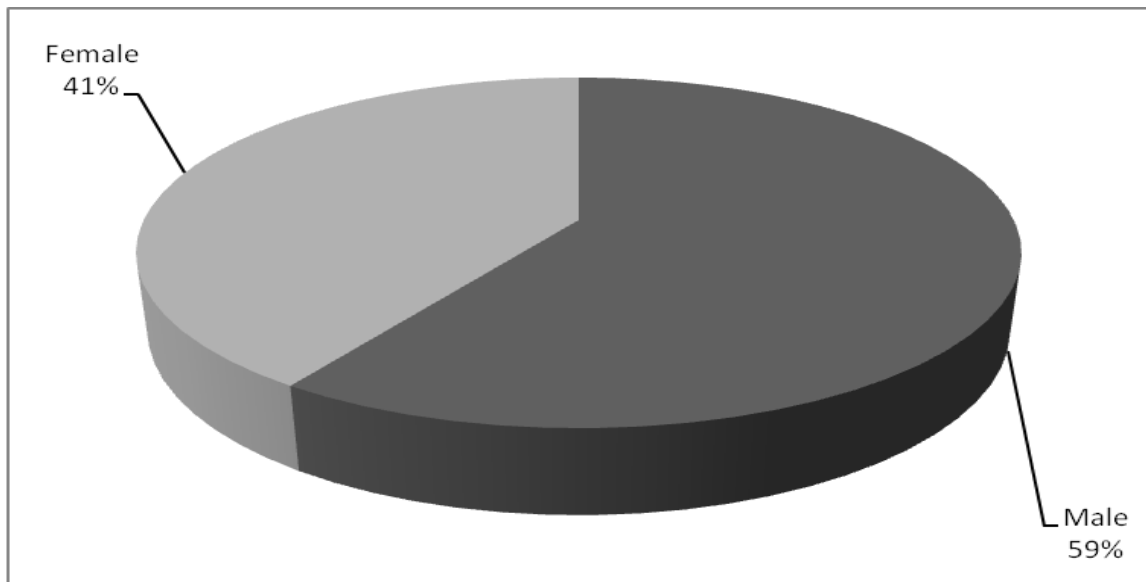


Figure 4.2: Gender Distribution

From the findings in Figure 4.2, the study found out that 59% of the respondents were male while the remaining 41% were females. This shows that all genders were represented thus provided relevant and reliable information for the study.

4.2.2 Period Working with the Company

The study sought to determine the period of time the respondents had been working with their respective insurance companies. The findings are shown on Figure 4.3.

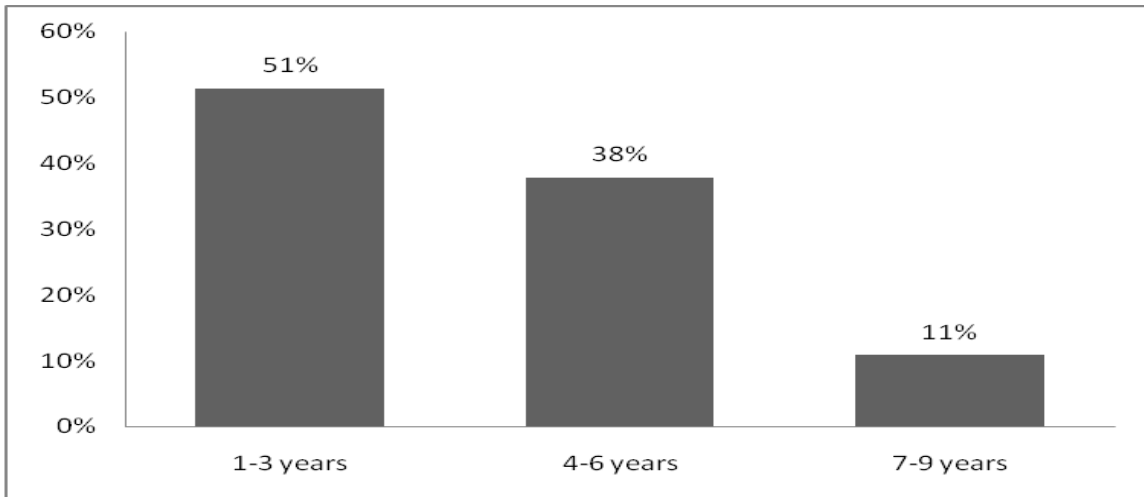


Figure 4.3: Period Working with the Company

As shown on Figure 4.3, majority 51% of the respondents had worked for between 1-3 years in their respective insurance companies, 39% for between 4-6 years and 11% for between 7-9 years. This shows that data was collected from individuals who have had experience and gave valid information for the study on effects of distribution channels on insurance penetration.

4.2.3 Highest Level of Education

The respondents were asked to indicate their highest level of education. The findings are shown below in Figure 4.4.

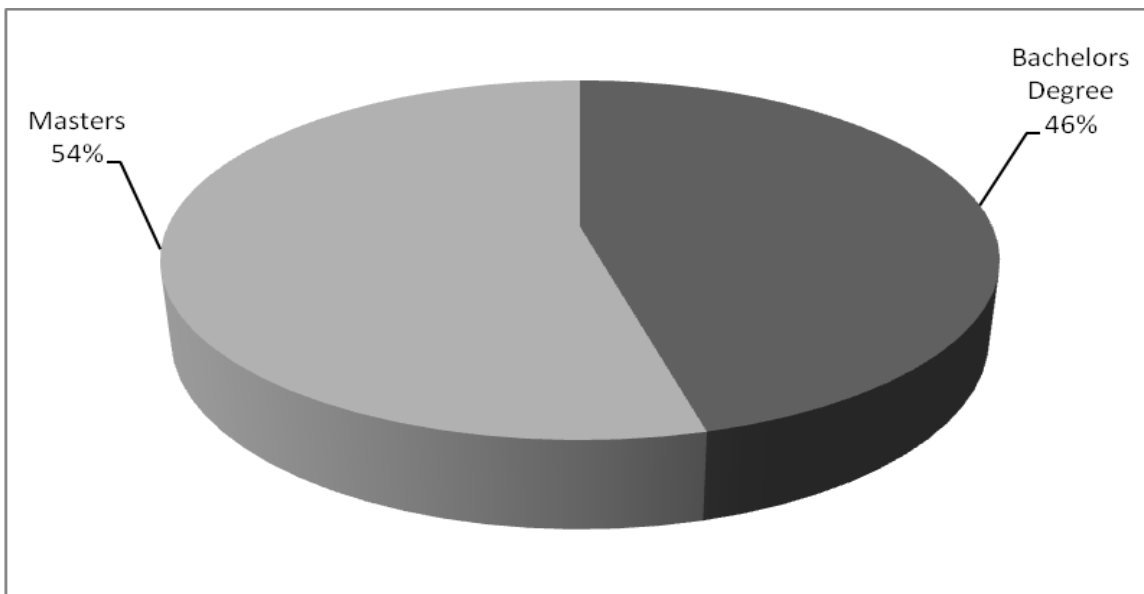


Figure 4.4: Highest Level of Education

From the findings on Figure 4.4, majority 54 % of the respondents had Masters as their highest level of education and 46% had bachelor's degree. This implied that the respondents had relevant knowledge on effects of distribution channels on insurance penetration in Kenya thus they had ease in addressing the question and provided the correct responses hence the data collected was reliable for the study.

4.3 Effects of Intermediary Channels on Insurance Penetration

Several statements on the effects of intermediaries on penetration of insurance in Kenya were identified and the respondents were required to indicate the extent to they agree or disagree with each of the statements. A scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent was used. From their responses mean and standard deviation was calculated for ease of interpretation. The findings are shown in Table 4.1.

Table 4.1: Effects of Intermediary Channels on Insurance Penetration

	Mean	Std. Dev
Continued use of in-house agents has improved insurance penetration in Kenya	4.21	.786
Continued use of freelance sales agents has improved insurance penetration in Kenya	3.83	1.067
The continued sale of insurance through insurance company branch network has improved insurance penetration in Kenya	3.51	1.044
The continued sale of insurance policies directly to customers has improved insurance penetration in Kenya	4.00	.666
The period of time taken to receive information through the intermediary network has improved insurance penetration in Kenya	3.91	.682

As shown in Table 4.1, continued use of in-house agents has improved insurance penetration in Kenya had a mean of 4.21 with a standard deviation of 0.786, continued use of freelance sales agents has improved insurance penetration in Kenya had a mean of 3.83 with a standard deviation of 1.067, continued sale of insurance through insurance company branch network has improved insurance penetration in Kenya had a mean of 3.51 with a standard deviation of 1.044, continued sale of insurance policies directly to customers has improved insurance penetration in Kenya had a mean of 4.00 with a standard deviation of 0.666 and the period of time taken to receive information through

the intermediary network has improved insurance penetration in Kenya had a mean of 3.91 with a standard deviation of 0.682. From the findings the mean values from 3.51-4.21 which implies that the respondents were in agreement with the statements and this concurs with the finding of Ngoima (2011) that traditional use of insurance agents and brokers can make a significant change in fostering market penetration for the insurance companies.

4.4 Effects of Direct Distribution Channel on Insurance Penetration

Several statements on the effects of direct distribution channel on penetration of insurance in Kenya were identified and the respondents were required to indicate the extent to they agree or disagree with each of the statements. From their responses mean and standard deviation was calculated for ease of interpretation. The findings are shown in Table 4.2.

Table 4.2: Effects of Direct Distribution Channel on Insurance Penetration

	Mean	Std. Dev
The direct distribution channel is a strategy that would help gain market penetration	3.70	.617
Using direct distribution channel for personalizing insurance products does well for sophisticated customers	3.67	.783
Direct distribution channel will alleviate fears caused by a misconception of the insurance industry	3.62	.681
Direct channel creates awareness of insurance products to the market hence increase penetration	3.89	.842
Direct distribution channel will help customers decipher the hard legalese language in the insurance policies	3.54	1.095
Creating consumer education on insurance products can aide in market penetration	3.97	.798
Good customer service by insurance agents would aide penetration into the insurance market	4.02	.832
Direct distribution channel can cater for the differences in cultural and religious beliefs of customers	4.13	.787

From the findings in Table 4.2, the direct distribution channel is a strategy that would help gain market penetration had a mean of 3.70 with a standard deviation of 0.617, using direct distribution channel for personalizing insurance products does well for sophisticated customers had a mean of 3.67 with a standard deviation of 0.783, direct

distribution channel will alleviate fears caused by a misconception of the insurance industry had a mean of 3.62 with a standard deviation of 0.681, direct channel creates awareness of insurance products to the market hence increase penetration had a mean of 3.89 with a standard deviation of 0.842, direct distribution channel will help customers decipher the hard legalese language in the insurance policies had a mean of 3.54 with a standard deviation of 1.089, creating consumer education on insurance products can aide in market penetration had a mean of 3.97 with a standard deviation of 0.798, good customer service by insurance agents would aide penetration into the insurance market had a mean of 4.02 with a standard deviation of 0.832 and direct distribution channel can cater for the differences in cultural and religious beliefs of customers had a mean of 4.13 with a standard deviation of 0.787. The finding shows that the mean values lies between 3.54 - 4.13 this implies that the respondents agreed with the statements which is consistent with the finding of Chaudhury and Das (2015) that personalizing insurance products and using direct distribution channel would increase penetration as the customer awareness is rising and their needs are more varied thus require customized products and flexible products.

4.5 Effects of Internet Based Channels on Insurance Penetration

Several statements on the effects of internet based channels on penetration of insurance in Kenya were identified and the respondents were required to indicate the extent to they agree or disagree with each of the statements. From their responses mean and standard deviation was calculated for ease of interpretation. The findings are shown in Table 4.3.

Table 4.3: Effects of Internet Based Channels on Insurance Penetration

	Mean	Std. Dev
Distribution of insurance products through internet based channels has improved gross premium underwritten	3.89	.965
Distribution of insurance products through internet based channels has created flexibility in applications	4.10	.875
Distribution of insurance products through internet based channels has enabled close monitoring by customers	3.72	1.096
The increase in mobile internet enabled phones has improved the uptake of insurance	4.02	.763

As indicated from the findings in Table 4.3, distribution of insurance products through internet based channels has improved gross premium underwritten had a mean of 3.89

with a standard deviation of 0.965, distribution of insurance products through internet based channels has created flexibility in applications had a mean of 4.10 with a standard deviation of 0.875, distribution of insurance products through internet based channels has enabled close monitoring by customers had a mean of 3.72 with a standard deviation of 1.096 and the increase in mobile internet enabled phones has improved the uptake of insurance had a mean of 4.02 with a standard deviation of 0.763. The mean values in the finding lies between 3.72-4.10 this shows that the respondents were in agreement with the statements which concurs with the finding of Akoth (2011) that using technology to access information about the economic behavior of customer segments provides valuable insights about insurance-selling opportunities.

4.6 Insurance Penetration

Several statements on penetration of insurance in Kenya were identified and the respondents were required to indicate the extent to they agree or disagree with each of the statements. From their responses mean and standard deviation was calculated for ease of interpretation. The findings are shown in Table 4.4.

Table 4.4: Insurance Penetration

	Mean	Std. Dev
Gross premium underwritten has been increasing with adoption of new distribution channels	4.13	.887
Intermediaries have contributed to a high proportion of industry premiums	4.35	.715
Internet based channels have contributed to a high proportion of industry premiums	3.72	.932
Bancassurance has contributed to a high proportion of industry premiums	4.16	.866

From the findings in Table 4.4, gross premium underwritten has been increasing with adoption of new distribution channels had a mean of 4.12 with a standard deviation of 0.887, intermediaries have contributed to a high proportion of industry premiums had a mean of 4.35 with a standard deviation of 0.715, internet based channels have contributed to a high proportion of industry premiums had a mean of 3.72 with a standard deviation of 0.932 and Bancassurance has contributed to a high proportion of industry premiums had a mean of 4.16 with a standard deviation of 0.866.

The mean values ranges from 3.72-4.35 showing that the respondents were in agreement with the statement thus concur with the finding of Vaughan and Vaughan (2008) that penetration rate indicates the level of development of insurance sector in a country. The higher the penetration rate is the more developed the insurance market in that particular country is.

4.7 Correlation Analysis

In order to determine the effects of distribution channels on insurance penetration in Kenya, correlation analysis was used. Pearson's correlations analysis was conducted at 95% confidence interval. Table 4.5 shows the correlation matrix between the factors (intermediary channel, direct distribution channel and internet based channel and insurance penetration).

Table 4.5: Correlation Analysis

		Insurance Penetration	Intermediary Chanel	Direct Distribution Chanel	Internet Based Chanel
Insurance Penetration	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	37			
Intermediary Chanel	Pearson Correlation	-.003	1		
	Sig. (2-tailed)	.984			
	N	37	37		
Direct Distribution Chanel	Pearson Correlation	.431**	.363*	1	
	Sig. (2-tailed)	.008	.027		
	N	37	37	37	
Internet Based Chanel	Pearson Correlation	.765**	-.021	.566**	1
	Sig. (2-tailed)	.000	.903	.000	
	N	37	37	37	37

The findings in Table 4.5 indicate that there is a weak positive correlation between direct distribution channels and insurance penetration with a magnitude of 0.431, a strong positive correlation between internet channels and insurance penetration whose strength is 0.765,

weak positive correlation between direct distribution channel and intermediary channel whose strength is 0.363 and a moderate positive correlation between internet based channels and direct distribution channel of magnitude of 0.566. The p values of; internet based channels and insurance penetration; direct distribution channel and intermediary channel; internet based channels and direct distribution channel were 0.000, 0.027 and 0.000 respectively which are all less than 0.05. This suggests statistically significant associations between the variables of the study. This further implies that we reject the null hypothesis of the study.

4.8 Regression Analysis

Regression analysis was conducted to determine the effects of distribution channels on insurance penetration in Kenya. The statistical package for social sciences (SPSS) was used to code, enter and compute the measurements of the multiple regressions for the study.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.765	.585	.547	1.83191

Table 4.6 shows a model summary of regression analysis between three independent variables (intermediary channel, direct distribution channel and internet based channel) and the dependent variable insurance penetration. The value of R was 0.765 and the value of R square was 0.585. This implies that 58.5% of changes in the insurance penetration were attributed to the three independent variables in the study while 41.5% of the variations were due to other factors not investigated by the study. Positivity and significance of all values of R shows that model summary is significant and therefore gives a logical support to the study model.

Table 4.7: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	155.958	3	51.986	15.491	.000 ^b
Residual	110.744	33	3.356		
Total	266.703	36			

ANOVA statistics of the processed data at 5% level of significance shows that the value of calculated F is 15.491 and the value of F critical at 5% level of significance was 2.87

Since F calculated is greater than the F critical (15.491>2.87), this shows that the overall model was significant.

Table 4.8:Regression Coefficients

Model	Unstandardized	Standardized t		Sig.
	Coefficients	Coefficients		
	B	Std. Error	Beta	
(Constant)	5.414	3.500		1.547 .131
Intermediary channel	.019	.138	.017	.138 .891
Direct distribution channel	.012	.144	.013	.082 .935
Internet based channel	.695	.128	.772	5.421 .000

From the regression findings, the substitution of the equation:

$$Y=5.414+0.019X_1+0.012X_2+0.695X_3+ \varepsilon_i$$

Where Y is the insurance penetration, X_1 is intermediary channel, X_2 is direct distribution channel and X_3 is the internet based channel.

From the findings of the regression analysis if all factors (intermediary channel, direct distribution channel and internet based channel) were held constant, insurance penetration would be at 5.414. An increase in intermediary channel would lead to an increase in insurance penetration by 0.019. An increase in the direct distribution channel would lead to an increase in insurance penetration by 0.012. An increase in internet based channel would lead to an increase in insurance penetration by 0.695.

4.9 Discussion of Findings

The study found out that continued use of in-house agents, use of freelance sales agents, insurance through insurance company branch network, continued sale of insurance policies directly to customers and the period of time taken to receive information through the intermediary network had improved insurance penetration. This finding concurs with that of Feyen, Lester and Rocha (2011) that insurance companies and players in the industry had adopted penetration strategies so as to increase their market share of their existing and new products through promotional activities such as branding, advertising, marketing and giving discounts to their customers.

The study revealed that direct distribution channel is a strategy that would help gain market penetration, does well for sophisticated customers, alleviate fears caused by a misconception of the insurance industry, creates awareness of insurance products to the market, help customers decipher the hard legalese language in the insurance policies, creating consumer education on insurance products can aide in market penetration, good customer service by insurance agents aide penetration into the insurance and direct distribution channel can cater for the differences in cultural and religious beliefs of customers. This finding is consistent with that of Chaudhury and Das (2015) that personalizing insurance products and using direct distribution channel would increase penetration as the customer awareness is rising and their needs are more varied thus require customized products and flexible products.

The study established that distribution of insurance products through internet based channels had improved gross premium underwritten, had created flexibility in applications, enabled close monitoring by customers and improved the uptake of insurance. This finding is in agreement with that of Kitua (2009) that insurance companies also use the social media platforms like facebook accounts, twitter handle and pop-ups on the internet to advertise and influence customers to buy their products have a current website running with all the information that a potential customer may seek on their services, processes and policies.

The study also established that gross premium underwritten had been increasing with adoption of new distribution channels and intermediaries, internet based channels and Bancassurance had contributed to a high proportion of industry premiums. This finding is in line with that of Malik (2011) that with the right strategies and adopting a mixed approach between the traditional way of using agents and a bit of modern technologies could further increase sales and the insurance companies' products' presence in the market.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMEDATIONS

5.1 Introduction

This chapter presents summary of the findings, conclusion and recommendations of the study based on the objective of the study which was to determine the effects of distribution channels on insurance penetration in Kenya.

5.2 Summary of the Findings

This section presents a summary of the findings as per the research objectives and the research questions.

5.2.1 Effects of Intermediary Channels on Insurance Penetration

The study found out that continued use of in-house agents, continued use of freelance sales agents and continued sale of insurance through insurance company branch network had improved insurance penetration in Kenya. The study further found out that continued sale of insurance policies directly to customers and the period of time taken to receive information through the intermediary network had improved insurance penetration in Kenya.

5.2.2 Effects of Direct Distribution Channel on Insurance Penetration

The study established that the direct distribution channel was a strategy that would help gain market penetration, using direct distribution channel for personalizing insurance products does well for sophisticated customers, direct distribution channel alleviate fears caused by a misconception of the insurance industry and direct channel creates awareness of insurance products to the market hence increase penetration. The study further established that direct distribution channel helped customers decipher the hard legalese language in the insurance policies, creating consumer education on insurance products aided in market penetration, good customer service by insurance agent's aide penetration into the insurance market and direct distribution channel catered for the differences in cultural and religious beliefs of customers.

5.2.3 Effects of Internet Based Channels on Insurance Penetration

The study revealed that distribution of insurance products through internet based channels had improved gross premium underwritten, distribution of insurance products through internet based channels had created flexibility in applications, distribution of insurance products through internet based channels had enabled close monitoring by customers and the increase in mobile internet enabled phones had improved the uptake of insurance.

5.3 Conclusion

The study concludes that intermediary channels are very important in enabling insurance companies widen their market through market penetration due to customer demand, convenience of the intermediary channels and the large market of coverage, intermediary channels act as transformation agents implying that insurance agents mobilize the potential clients in the uninsured pool to take up insurance covers. The study further concludes that intermediary channels act as service providers which imply that the main role of engaging intermediary channels is for the insurance companies to improve service delivery to their clients in various parts of the country.

The study concludes that direct distribution channel strategy help gain market penetration, does well for sophisticated customers, alleviate fears caused by a misconception of the insurance industry and creates awareness of insurance products to the market hence increase penetration. The study further concludes that direct distribution channel helped customers make sense of the hard legal language in the insurance policies and catered for the differences in cultural and religious beliefs of customers.

The study also concludes that internet based channels helped the insurance companies to distinguish themselves from their competitors through enabling mobile, online, e-marketing, telemarketing and branchless insurance for the customers. It has also improved its image because internet based channel has enabled the insurance companies to become more responsive to customer needs, create awareness on innovation and engage customers in the day to day issues affecting their them. It also enables retention of existing customers because use of internet based channel help the insurance companies to keep connected to the existing customers through constant communication on telephone,

email, and media and on the internet. The customers feel that they are valued and this helps to maintain their loyalty. Internet based channel further attracts new customers who require better products, service and efficiency.

5.4 Recommendation

The study recommends that insurance companies should continue engaging the services of intermediaries in order to reach the large population of uncovered pool. The study recommends that insurance companies should use the intermediary channels services not just to reach the uncovered pool but also as a way of reducing participation costs so that in the long run they are able to maximize their profits.

The study recommends that although internet based channel has been able to reach wider market within short period and less costs there is also need for the insurance companies not to depend entirely on internet based channel distribution and marketing channels since majority of the Kenyans live in remote areas where technology has not taken root. There is still therefore need for insurance companies to maintain the traditional sales tools that can reach the rural markets.

The study also recommends that direct distribution channel as a strategy of increasing insurance companies' services and products should not be limited to the customers visiting the companies and its branches but they should diversity to capture the wider market such as people who are not in their existing customer's database.

5.5 Limitation of the Study

This study was limited to assessing intermediary channel, internet based channels and direct distribution. Getting some information from the respondents proved difficult. Only limited information was availed, the researcher assured the management that the information gathered was for academic purposes only.

Respondents did not want to participate in the study as they find it time consuming or fear that their identities would be exposed if they involved themselves in the study. To overcome this challenge, the researcher assured the respondents of the benefits of

participating in the study, the research instruments was designed to take as minimal time as possible so as to enhance response from the respondents. The researcher overcame this problem by ensuring that the respondents remain anonymous and information given was strictly for the purposes of the study.

5.6 Area for Further Study

This study concentrated on the effects of distribution channels on insurance penetration in Kenya focusing on underwriters, other studies should be undertaken where the agents, intermediaries and brokers of the insurance products are included, as well as the clients. This will ensure that all Stakeholders contributions are taken into consideration.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Please fill out the questionnaire on: **EFFECTS OF DISTRIBUTION CHANNELS ON INSURANCE PENETRATION IN KENYA.**

PART A: BACKGROUND INFORMATION

1. Name of the Insurance Company (Optional) _____
2. What is your gender?
Male [] Female []
3. What is your Position in the Company

4. Number of years you have worked with this company.
1 -3 years [] 4-6 years []
6-9 years [] 10 years and above []
5. What is your highest level of education?
Certificate [] Diploma []
Bachelors Degree [] Masters []
PhD []

PART B: INTERMEDIARY CHANNELS

6. Below are several statements on the effects of intermediaries on penetration of insurance in Kenya. Kindly indicate the extent to which you agree or disagree with each of these statements. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

STATEMENT	1	2	3	4	5
Continued use of in-house agents has improved insurance penetration in Kenya					

Continued use of freelance sales agents has improved insurance penetration in Kenya					
The continued sale of insurance through insurance company branch network has improved insurance penetration in Kenya					
The continued sale of insurance policies directly to customers has improved insurance penetration in Kenya					
The period of time taken to receive information through the intermediary network has improved insurance penetration in Kenya					

PART C: DIRECT DISTRIBUTION CHANNEL

7. Below are several statements on the effect of direct distribution channel on insurance penetration in Kenya. Kindly indicate the extent to which you agree or disagree with each these statements. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

STATEMENT	1	2	3	4	5
The direct distribution channel is a strategy that would help gain market penetration					
Using direct distribution channel for personalizing insurance products does well for sophisticated customers					
Direct distribution channel will alleviate fears caused by a misconception of the insurance industry					
Direct channel creates awareness of insurance products to the					

market hence increase penetration					
Direct distribution channel will help customers decipher the hard legalese language in the insurance policies					
Creating consumer education on insurance products can aide in market penetration					
Good customer service by insurance agents would aide penetration into the insurance market					
Direct distribution channel can cater for the differences in cultural and religious beliefs of customers					

PART D: INTERNET BASED CHANNELS

8. Below are several statements on Internet Based Channels and their impact on the level of insurance penetration in Kenya. Kindly indicate the extent to which you agree or disagree with each of these statements. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

STATEMENT	1	2	3	4	5
Distribution of insurance products through internet based channels has improved gross premium underwritten					
Distribution of insurance products through internet based channels has created flexibility in applications					
Distribution of insurance products through internet based channels has enabled close monitoring by customers					
The increase in mobile internet enabled phones has improved the uptake of insurance					

PART D: INSURANCE PENETRATION

9. Below are several statements on insurance penetration in Kenya. Kindly indicate the extent to which you agree or disagree with each of these statements. Use a scale of 1-5 where 1= No extent, 2= little extent, 3=moderate extent, 4=great extent and 5=very great extent.

STATEMENT	1	2	3	4	5
Gross premium underwritten has been increasing with adoption of new distribution channels					
Intermediaries have contributed to a high proportion of industry premiums					
Internet based channels have contributed to a high proportion of industry premiums					
Bancassurance has contributed to a high proportion of industry premiums					

THE END