# THE INFLUENCE OF MARKET INNOVATION STRATEGY ON INSURANCE PENETRATION IN KENYA

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## ABSTRACT

Insurance industry in Kenya faces low insurance penetration in terms of market share, product diversification among other measures. Only 6.8% of Kenya's population has purchased insurance cover with an overwhelming 93.2% never having embraced insurance cover either in life or property. The penetration of insurance in Kenya is estimated at 3.44% which is very low compared to other countries like South Africa with the highest penetration rate of 14%, Namibia 8% and Mauritius 5.94%. This study was designed to assess the role of market innovation strategy on insurance penetration in Kenya. The study focused on the licensed insurance companies in Kenya. This study employed a descriptive research design because it involves describing a phenomenon. The population of the study was 51 Insurance Companies licensed to underwrite insurance services. The sample of the study was 34 insurance companies licenced to offer underwrite insurance services from which 68 marketing, underwriting, finance and claims managers were sampled. From the study findings, majority of the respondents thought market innovation analyzes identifies what customers want. The study found out that majority of the respondents were in agreement that market innovation contribute to insurance penetration.

**Key words**: Market innovation strategy, Insurance penetration

# 1. INTRODUCTION

## 1.1 Background of the Study

Insurance companies provide unique financial services to the growth and development of every economy. Such specialized financial services range from the underwriting of risks inherent in economic entities and the mobilization of large amount of funds through premiums for long-term investments (Pearson & Robinson, 2007).

### 1.1.1 Global Outlook of Insurance Penetration

Statistics show that global insurance penetration is 6.28% with Latin America taking the lead at 11.03%, Europe 6.73%, Asia 5.73%, Oceania 5.6% and Africa trailing at 3.65% (Swiss Re, 2013). According to Okulo (2014), in 2013 the average penetration for Europe was 6.82 per cent while Africa's was 3.65 per cent. South Africa has the highest penetration rate of 14%, Namibia 8%, Mauritius 5.94% with the rest of African countries below 3.5% (Swiss Re, 2013). A report by Sinha (2011) on behalf of the Insurance Regulatory and Development Authority shows that Insurance markets in India are showing clear signs of expansion, requiring insurers to be innovative in their approach towards achievement of sustainable growth. India's insurance penetration is lower than the world average which in 2013 was 6.28 per cent, while for India it was 5.2 per cent. Many of these research embrace more or less a positive association between market innovations and firm performance, but there are also some studies indicating a negative link or no link at all (Capon et al., 2006; Chandler & Hanks, 2004, Subramanian & Nilakanta, 2006).

## 1.2 Statement of the Problem

Financial Sector Deepening Kenya (2009) shows that only 6.8% of Kenya population has purchased insurance cover with an overwhelming 93.2% never having embraced insurance cover either in life or property. Despite the fact that Insurance penetration is a global problem with developed markets like UK at about 11% and USA at about 8.6%, it is a more serious problem in Kenya given that the penetration is as low as 3.4% which is below the continent penetration of 3.65% (Swiss Re, 2013). The penetration of insurance in Kenya is too low estimated at 3.44% compared to other African countries such South Africa with a penetration rate of 14%, Namibia 8% and Mauritius 5.94% (Manyara, 2014). Certain organizational forms have been identified as being suited to driving market innovation. Kang, (2006) covered strategic issue management in

Insurance companies in Kenya; Kitur (2006), carried out a survey of strategic role of market innovations through enhnaced Information technology among Insurance Companies in Kenya . The studies have focused on different areas, other than the role of market innovation on insurance penetration. With the signing up of the East Africa Protocol accord in 2010, the territorial limits of operation have widened, and there is need for market innovative strategic approaches of reaching these new markets and increase penetration. This study seeks to bridge low insurance penetration in Kenya and methodological gaps available in the literature by assessing the role of market innovation strategy on insurance penetration in Kenya.

### 1.3 Research Objective

To establish the influence of market innovation strategy on insurance penetration in Kenya

## 2. LITERATURE REVIEW

### 2.1 Theoretical Framework

#### 2.1.1 Marketing Theory

Marketing an innovation is usually regarded as an important aspect such that for a company to be successful, independent of the effort which is used to bring it to consumers (Beard & Easingwood, 1996). Several factors influence firms' decisions concerning marketing innovation: the degree of substitutability, the number of competitors and market size (Beath, Katsoulacos & Ulph, 1997). The marketing innovation decreases with both the degree of market substitutability and the number of competitors while it increases with increasing market size. Market size has a positive and highly significant effect on firms' propensity to introduce product innovation and also their effort in marketing the innovation. Market concentration has a significantly positive effect on product innovation only and does not significantly affect effort used to market the product innovation (Edgett, 2006).

#### 2.1.2 The Resource Based Theory

An outstanding theory in innovation study is the Resource Based Theory (Penrose, 1959) that posits that competitive advantage arises from organizational resource and capabilities that underlie and determines a firm's capacity for innovation. A firm is considered as a coordinated bundle of

resources and its capability to exploit the resources a source of sustainable competitive advantage (Teece *et al*, 1997). Firms obtain competitive advantage from unique bundles of tangible and intangible assets that are rare, valuable, imitable and sustainable. Firm resources are those assets connected semi-permanently to a firm and include human, social, technological, knowledge, physical and financial (Barney, 2002).

A firm's own resource provides a much more stable context in which to develop its innovation activity and shape its market. When firms have resources that are valuable, rare and not easily copied, they achieve a sustainable competitive advantage mostly in the form of innovative new products (Trott, 2008). The presence of different organizational resources and capabilities positively affects the innovation process and capacity of firms. Organizational resources provide the input that is combined and transformed by capabilities to produce innovation. Financial resources are among the most important bundles or resources for a firm and can be used to expand a firm's capacity to support innovative activities especially R & D while lack of financial resources may act as a barrier to innovation. Internal financial resources are more conducive to R&D activities than external funds (Yang, 2011)

Another key resource for firm's competitiveness is the knowledge based resources (Wang et al, 2009, Lee & Sukuco, 2007, Wiklund & Shepherd, 2003). Knowledge facilitates the discovery of ideas and exploitation of opportunities for innovation and can be used to manipulate, transform and develop the other resources for competitiveness in the market (Gilbert et al, 2008; Kaya & Patton, 2012). Knowledge allows firms to accurately predict the nature and potential of changes in the environment and the appropriateness of strategic actions and provides a foundation for the accumulation and development of other resources by the firm (Price, Stoica & Boncella, 2013). These resources include knowledge created by the firm internally and that acquired by the firm from other sources of knowledge. A high stock of qualified employees with advanced skills and knowledge increases the innovation capability of a firm (Kostopoulos & Spanos, 2002). The resource based view focuses on the link between firms' resources and innovation and how the resources affect the ability of the firm to innovate is organized to exploit the resources (Barney, 2002).

### 2.2 Empirical Review

Hollanders and Evangelista (2012) using a feasible approach, conducted a study on promises and pitfalls of organisational and marketing innovation found that organisational and marketing innovations are deployed by a considerable share of European enterprises in order to gain economic success and competitive advantage. But due to the highly complex nature and strong reference to related fields of product innovation (in the case of marketing) and technical process innovation (in the case of organisational innovation), their economic effects are more likely to become visible as indirect effects in terms of "enablers" and "prerequisites" for innovation. Nevertheless, the findings show that organisational and marketing innovation can also contribute to firms' direct economic performance in terms of sales growth and increases in productivity. Based on the analysis of selected organisational concepts, the findings also depict that different organisational measures vary in their linkage to different economic performance dimensions (Hollanders & Evangelista, 2012).

### 2.3 Research Gaps

The study by Pishgar, Dezhkam, Ghanbarpoor, Shabani and Ashoori (2013) on the impact of product innovation on customer satisfaction and customer loyalty in the construction industry in Iran found that customer orientation has a positive impact on performance. However, the study was conducted in the Islamic state of Iran on the construction industry while the current study seeks a Kenyan perspective of the insurance sector.

Hollanders and Evangelista (2012) in their study on promises and pitfalls of organizational and marketing innovation on European enterprises in Europe found that organizational and marketing innovations are deployed by a considerable share of enterprises in order to gain economic success and competitive advantage.

The study by Didier and Olsson (2011) on micro insurance and the importance of an inclusive approach in service innovation in Germany found that technological innovation is key to the success of organizations. The study by Baraev (2009) on future scenario planning in strategic management on mobile telecommunication industry found that scenario planning could be successfully used for understanding the structural uncertainties and unpredictable events in rapidly

changing business environments. All these studies were done in developed economies and none of them focused on the role of market innovation strategy on insurance penetration. This study will be carried out in a developing economy which is different from the developed economy.

## 3. METHODOLOGY

### 3.1 Research Design

A descriptive research design was used in this study. Descriptive research is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals Orodho (2003). It can also be used when collecting information about people's attitudes, opinions habits or any other social issues (Orodho, 2003).

### 3.2 Target Population

The target population of this study was 51 insurance Companies which have headquarters in Nairobi Kenya licensed by Insurance regulatory authority to underwrite insurance business. Managers from these insurance companies were used as unit of observation. The choice of these officers is based on the fact from AKI (2013) that they have a vast knowledge of the matters relating to insurance industry and are best placed to offer valuable information to the study without biasness. The list of the target population was obtained from the Insurance Regulatory Authority. According to Makove, (2013), there are 228 managers in Marketing, IT, Underwriting and Finance departments in the insurance industry in Kenya. These managers were used as the unit of observation while the insurance companies were used as the analysis.

### 3.3 Sampling Frame

Stratification will be used to divide the units of observation into different strata i.e. the marketing, underwriting, finance and IT managers of the surveyed insurance companies so as to draw randomly a predetermined number of units. Stratification aims to reduce standard error by providing some control over variance (Mugenda & Mugenda, 2003). The managers in the 51 insurance firms from whom information was sought were chosen using simple stratified random sampling.

### 3.4 Sampling Techniques and Sample Size

According to the AKI report, (2013) there are 51 licensed insurance companies in Kenya underwriting insurance services. The study sought information from the marketing, underwriting, finance and IT managers of these companies. The insurance companies from which the marketing managers were interviewed were selected using a survey. The managers to be involved in the study were selected using stratified random sampling since the population is not homogeneous. Stratified random sampling is used where the population from which the sample is drawn is not homogeneous (Orodho, 2003).

### 3.5 Data Collection Procedure

A semi-structured questionnaire was used to collect primary data. This is appropriate because it allows a participant to provide feedback that is slightly more expansive than a simple close-ended question, but that is much easier to quantify than a completely open-ended response (Bryman & Bell, 2003).

### 3.6 Data Analysis

Completed questionnaires were edited for completeness and consistency. The process of data analysis involved several stages namely; data coding, data cleaning and analysis. Responses in the questionnaires were tabulated, coded and processed by use of Statistical Package for Social Science (SPSS). The responses from the open-ended questions will be listed to obtain proportions appropriately; the response was then be reported by descriptive narrative. Descriptive statistics such as mean and standard deviation were used to quantify the data. Tables, pie-charts, and graphs were used to present responses and facilitate comparison.

## 4. FINDINGS

**Regression Analysis for Market innovation strategy and insurance penetration**

The study sought to determine the amount of variation explained by Market innovation strategy on insurance penetration. The results are shown in Table 1.

**Table 1: Model Summary for Market innovation strategy**

| R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|

| | | | |
|---|---|---|---|
| .596[a] | .355 | .312 | 585.71368 |

The amount of variation in insurance penetration explained by market innovation strategy was determined by conducting a regression analysis. The calculated R is 0.596 and $R^2$ 0.355 which implies that 35.5% of the corresponding variation in insurance penetration can be explained by change in market innovation strategy. The rest 64.5% can be explained by other factors that are not in the model.

### *ANOVA for Market innovation strategy and insurance penetration*

The study sought to establish the level of significance of Market innovation strategy on insurance penetration. The findings are shown in Table 4.8. A one way analysis of variance (ANOVA) with a 1 degree of freedom results was used to form a basis for tests of significant. The ANOVA for the linear model of market innovation strategy and insurance penetration has an F-value 8.256 which is significant with a p-value 0.012 < 0.05 meaning the model is significant in the prediction of insurance penetration. The study therefore rejects the null hypothesis that there is no significant relationship between Market innovation strategy strategy and insurance penetration and confirms that there is a positive and significant relationship on Market innovation strategy and insurance penetration.

**Table 2: ANOVA for Market innovation strategy and insurance penetration**

| | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 2832304.165 | 1 | 2832304.165 | 8.256 | .012 |
| Residual | 5145907.745 | 15 | 343060.516 | | |
| Total | 7978211.909 | 145 | | | |

### *Regression Coefficient of Market innovation strategy and insurance penetration*

The study sought to establish the level Market innovation strategy can predict insurance penetration. The findings are shown in Table 4.9. An analysis of the regression model coefficients

indicate a positive beta-co-efficient of 0.067 with a p-value 0 .012 < 0.05 and a constant of 466.219 with a p-value 0.012 < 0 .05. Therefore market innovation strategy strategy contributes significantly to the model. The study concludes that the model can provide the information needed to predict insurance penetration from Market innovation strategy. The regression equation follows as: $Y = 466.219 + 0.067X_2$, where,

Y = Insurance penetration

$X_2$ = Market innovation strategy

The regression equation implies that insurance penetration increase by 7% with an increase of a unit of Market innovation strategy.

**Table 3: Regression Coefficient of Market innovation strategy and insurance penetration**

| | Coefficients | | | | |
|---|---|---|---|---|---|
| | **B** | **Std. Error** | **Beta** | **T** | **Sig.** |
| Constant | 466.216 | 383.041 | | 1.647 | .012 |
| Market innovation strategy | 0.067 | .583 | .596 | 2.873 | .012 |

## CONCLUSION

The study concluded that market innovation is a key driver for insurance penetration; that market innovation strategy is very important factor in as far as insurance penetration is concerned, thus the need to be involved during the requirement and specification development stage; that venturing new market segments is a key driver for insurance penetration; that development of new marketing channels is a vital ingredient leading to increased insurance penetration; that marketing is a critical contributor to insurance penetration; that allocating marketing resources in budgetary estimates is a very important factor contributing to insurance penetration; that carrying out customer satisfaction surveys is positively correlated to insurance penetration; that conducting customer

satisfaction surveys is an important factor contributing to insurance penetration; and that conducting frequent customer surveys are important factors contributing to insurance penetration.

## RECOMMENDATIONS

The study is a justification of the fact that the role of market innovation strategy on insurance penetration in Kenya cannot be underestimated and has contributed to higher insurance penetration in Kenya. Specifically, the study recommends that: Insurance firms should venture new market segments to by establishing solid partnerships with banks and agribusiness organisations. Further, insurance firms should allocate adequate resources for market research and development during budgeting to discover new market segments.

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