

**STRATEGIC RESPONSES TO THE DECLINING
UNDERWRITING PROFITABILITY IN INSURANCE
INDUSTRY IN KENYA PARTICULARLY IN GENERAL
INSURANCE**

BY

MBATARU MARY NYOKABI

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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**A Project Submitted to the Chandaria School of Business in
Partial Fulfillment of the Requirement for the Degree of
Masters in Business Administration (MBA)**

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2018

STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution, or university other than the United States International University Africa in Nairobi for academic credit.

Signed: _____

Date: _____

Mbataru Mary Nyokabi (655582)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: _____

Date: _____

Dr. Peter Kiriri

Signed: _____

Date: _____

Dean, Chandaria School of Business

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ABSTRACT

The purpose of this study was to establish the strategic responses being adopted by General Insurance companies in Kenya to address underwriting profitability. The study was guided by three research questions. This sought to establish underwriting strategies being employed to address underwriting profitability, the claims strategies being employed to address underwriting profitability and the product development strategies being employed to address underwriting profitability.

The research adopted a descriptive research and the study targeted a total population of 141 employees' in the general insurance. The stratified simple random sampling technique was used as it was effective for the study. A sample of 59 questionnaires was considered adequate and was arrived at using Yamane formula although only 58 respondents returned the questionnaires. The tool used to collect the data was a structured questionnaire. The statistical package for social sciences (SPSS Version 25) data analysis software was used to analyze data based on descriptive and inferential statistics. The study also used a correlation analysis and regression analysis that established the relationship between the dependent variable and the independent variables and data was presented using tables and figures.

A Pearson correlation was done to establish the relationship between underwriting profitability and other factors and the findings revealed that there was a positive relationship between underwriting profitability and underwriting strategies employed. The regression analysis showed that variation in underwriting profitability was explained by the variations in underwriting strategies.

A Pearson correlation done to establish the relationship between underwriting profitability and claim strategies also revealed that there was a positive relationship between underwriting profitability and claim strategies employed. The regression analysis showed that variation in underwriting profitability was explained by the variations in claim strategies.

A Pearson correlation done to establish the relationship between underwriting profitability and product development strategies also revealed that there was a positive relationship between underwriting profitability and product development strategies employed. The regression analysis showed that variation in underwriting profitability was explained by the variations in product development claim strategies.

It was concluded that having the right technical skill is very essential to ensure underwriting profitability, in addition, the pricing and profiling strategies employed are very vital in determining the profitability levels enjoyed by a firm. Strategic partnership and relationship management is highly encouraged and this could be attributed to motivating gaining of complement resources and capabilities and that the strategic partnership thus contribute towards organizational performance of the insurance firms in Kenya. Secondly, fraud detection is a challenge in the sector and urgent action needs to be taken by the Government and its agencies such as IRA and IFIU as well as individual insurance providers and their associations if there is an intention to improve underwriting profitability. Lastly, product mix strategy offers competitive pricing for profitable channels and there are customized Product scope design; benefits, terms, limits to suit the various market needs.

The study recommended that the firms should seek to have underwriting governance, processes and controls matrixes that and risk surveys and experience adjustments hence significantly improve account profitability performance and continuously measures underwriting results as a key performance indicator (KPI) in order to improve performance. Secondly, more emphasis should be put on fraud detection and investigation as a measure of improving underwriting profitability. There is a need to adopt digitalization of technologies, and there is also a need for consumer/members education programs, this will ensure the consumers better understand their role in the insurance contracts. Lastly, in order to guarantee successful products, a thorough Market Research (Research driven product design) should be undertaken to establish customer needs. The firm also need to create more awareness in the Product Service Models through their digital platforms.

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I would like to thank God for his grace and my dear Parents for their prayers and encouragement. I would also like to thank in a special way my project supervisor, Dr. Peter Kiriri, for his guidance, guidance meetings and availability

DEDICATION

This study is dedicated to God for his love, grace and mercy to me, to my parents and to the insurance profession.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Strategic responses are part of competitive strategies that an organization develops in an effort to beat competition and improve performance. According to Pearce and Robinson (2011), strategic responses are a blend of actions and decisions that organizations use to formulate and implement plans that they can use to achieve their objectives. Ansoff and MacDonnell (2013) posit that organizations are not able to survive in the market environment if they fail to come up with proper strategic responses strategies. According to Ansoff (2011) strategic response involves changes in the firm's strategic behaviors to ensure success in transforming future business environment.

Mwangi (2007) emphasizes that organizations use strategy as a game plan to survive in turbulent environment. Strategies are not static; they keep changing as the environment changes. In order for an organization to be effective and successful, they should develop strategies that will help them respond changes that are taking place in the environment. Firm's that do not take actions to align itself with the environment cannot survive in the environment. Dess, Lumpkin and Eisner (2008) posit that before introducing a response, organizations should evaluate what their competitor's action is likely to be. Ireland, Hoskisson and Hitt (2013) asserts that responses are part of competitive strategies that firm's develop to beat competition in the industry. There are two types of responses to environmental changes: strategic and tactical responses (Dess, Lumpkin & Eisner, 2008).

According to Njuguna (2014) strategic responses are a group of actions and decisions which enables an organization formulate and execute a plan hence achieve its objectives. Bateman and Snell (2014) states that strategic responses are mainly concerned with survival of a firm in turbulent environment. In addition, according to Kaburi (2013), there is need to adopt new strategies that match the challenges from the environment. Nyamai (2011) investigated strategic responses by Jubilee Insurance Company limited to the industry's economic environment and changes in the insurance industry in Kenya. It was revealed that high inflation rate, unemployment, and high interest rates, legislative and hostile economic policies are examples of challenges jubilee insurance company are facing. However, new product development, entering new

markets, improved customer services, employees' motivation and adoption of state of art of information technology systems are examples of strategies that jubilee insurance are using to respond to challenges that are taking place in the business environment

Ansoff and McDonnell (2013) states that strategic response is the process where firms change their strategic behavior. A lot of insurance companies are not able to survive in the industry due to high competition. Moreover, a lot of insurance companies are experiencing losses and reduction in investment returns due to poor economic condition, poor economic policies and hostile economic legislation. However, insurance companies can change their strategies and respond to changes that are taking place in the environment by adopting a new strategy or maintaining its status quo. For effective strategic responses an organization should scan internal and external environment hence, become aware of environmental variables factors that support current and future business operations (Thompson & Strickland, 2005).

According to Thompson, Strickland and Gamble (2010), an organization is able to manage its environment by being proactive rather than reactive. Moreover, an organization is not able to predict changes that might take place in the environment however, some organization will be able to control the situation more as compared to their competitors. An organization is also able to successfully respond to changes taking place in the environment by ensuring that its response matches the complexity and speeds of the environmental challenges (Ansoff & McDonell, 2013). Strategic responses are decisions that involve the environment in which firms are operatizing in, resources and employees (Ross, 2011). Strategic responses allow organizations to cope up with increased uncertainty and turbulence in the micro-and macro-environment. Strategic response includes; long term planning, new venture development, budgeting and business policy (Pearce & Robinson, 2011).

Byar's (1991) posits that operational responses are concerned with efficiency of operations whereas, strategic responses affect several areas of operation, require top management decisions and huge financial commitments, affect firms long term success and rely on the environment. Santhanam and Hartono (2003) investigated the effectiveness of strategy, resources and capability to firm performance, IT firms in US. It was revealed that there was a positive correlation between strategic responses and organizational performance. Collins (2014) examined strategic responses by

manufacturing firms in the Netherlands. It was revealed that in Netherlands, manufacturing firms that use strategic response perform better than firms that do not use strategic responses. Jabar, Othman and Idris (2011) investigated enhancing organizational performance through strategic technology alliances: a study on Malaysian Manufacturer. Findings revealed that in order for manufacturing companies in Malaysia to achieve a competitive advantage and increase performance, they have to increase their internal resources.

Kasekendi (2013) investigated strategic responses to poor organizational performance: a test of competing perspectives. It was revealed that there was a strong positive correlation between strategic response and performance. Mohammed (2014) examined the impact of strategic responses and performance of manufacturing firms in Dar-es-Salaam. It was revealed that firms in Dar-es-Salaam use strategic response such as mergers, differentiation, product innovation and strategic alliances. Diallo (2012) investigated the effectiveness of coping strategies by commercial banks to environmental dynamics in Senegal. Findings showed differentiation, mergers, strategic alliances and product innovation examples of strategies used by banks in Senegal. On the other hand, Ketchen and Palmer (2013) in their study it was revealed that there was an inverse association between strategic responses and performance.

Insurance companies in Kenya faces challenges such as low insurance penetration due to lack of awareness by the public about the benefits of insurance and the negative perception of the industry Therefore, in order to respond to changes that are taking place in the environment insurance companies should come up with strategies that will enable them become more competitive and profitable in the industry (Kaumbutha, 2013). Lwanga (2011) states that response strategies used in Sacco industry are important in helping an organization improve in performance and competitive edge. Saccos use strategic responses such as; by divesture, restructuring and rightsizing, Staff training and development, competitive appointment of senior staff, outsourcing some services, aggressive. Through this, Saccos are able to respond to changes that are taking place in the environment. Porter (2005) asserts that operational responses are part of a planning process that organizations use to match operational goals with goals of organization. Therefore, operational issues are mostly concerned with certain broad policies and policies for using firms resources to support its long term competitive strategy.

Thirima (2010) conducted a research on strategic responses to challenges of insurance regulation in Kenya by the insurance regulatory authority. Strategic responses adopted by insurance regulation in Kenya include review of the Insurance Act Cap 487 of Laws of Kenya, divestment on shareholding of insurance companies limiting ownership to 25%, enforcing the capital base requirement, training on good corporate governance as well as conducting frequent onsite inspections to ensure compliance with the Insurance Act. In addition Thirima (2010) states that insurance companies can use strategic responses to manage their businesses and respond prevailing environmental condition. Through this, insurance companies will be able to remain competitive in the industry.

Were (2007) conducted a survey of factors influencing strategic responses by state corporations to changes in the environment. It was revealed that organizational structure control processes, and availability of resources are example of factors that significantly influence strategic response. Strategic response is the matching of organizational activities to the environment in which it operates. Strategic response also affects firm's long term direction. It enables an organization to achieve a competitive advantage (Gerry, Kevan & Whittington, 2009). Strategic responses may include making alliances, price adjustments, product differentiation and a variety of actions that can result in competitive advantage.

Salat (2016) investigated factors influencing strategic responses to external environment by deposit taking SACCO's in Nairobi County. Findings revealed that strategic responses are influenced by managerial competence, organizational structure, organizational culture, control processes, time available and availability of resources. Kaburi (2013) investigates strategic responses to the changes in the business environment by Unaitas Sacco society ltd, Kenya. It was established that Unaitas was affected by new technologies, high expectations from their clients, increased government supervision, weather fluctuations and increased competition.

The Kenyan insurance industry falls under the Insurance Act CAP. 487 of the Kenyan Laws, under the regulation of the Insurance Regulatory Authority (IRA), established under the Insurance Act Amendment (2006). Kenya has around 52 insurance companies, reinsurance companies 3, insurance broker 204, reinsurance brokers 10, medical insurance providers 32, insurance investigators, 146, motor assessors 121, insurance surveyors 32, loss adjusters 31, claims settling agents 4, risk managers 9, insurance agents 7720 and

bancassurance insurance agents 26 (Insurance Industry Annual Report, 2016). Insurance penetration in Kenya stands at 2.73% which is considered low compared with the world average of 6.28% (IRA, 2016). According to the Insurance Regulatory Authority (2017), Kenya insurance has grown by 10.7% during the period of 2017 from compared 7.2% in 2016. The growth was due to growth of 16.9% in the long term insurance business segment and growth of in the general insurance business segment. In 2017 Reinsurers reported premium income of KES 13.12 as compared to KES 12.58 billion in 2016. Moreover, Insurance premium stood at 160.20 billion by the end of the third quarter of 2017 with 62.3% of the industry business comprising of general insurance.

1.2 Problem Statement

Kenya's insurance penetration is still low, in comparison to other global markets, however in comparison to most regional peers, the penetration is relatively higher. Various studies have been done to document strategic responses by various organizations to changes in the environment. For instance, Kudoyi (2010) researched on strategic responses to changes in the external environment by insurance companies in Kenya. Akech (2014) investigated response strategies to changes in external environment by Sony sugar Company Limited.

Kamomoe (2016) conducted a research on Strategic responses and financial performance of insurance firms in Kenya. Ithiru (2017) investigated strategic responses to changes in business environment: Case study of Britam Insurance Company in Kenya. Findings revealed that responsiveness to the changing environment and firm performance is influenced by operational. Kaumbutha (2013) investigated strategic responses of first assurance company limited to competitive environment of the insurance industry in Kenya. It was recommended that insurance companies should properly develop strategic response strategies that they can use to deal with turbulent environmental changes. Sasaka (2017) investigated Strategic responses to technological turbulence: a case study of IBM Africa. It was revealed that uncertainty had a negative effect on strategic response and product obsolescence had a positive influence on the strategic responses. It was recommended that it that businesses should not ignore the dynamic nature of the environment they operate in, but rather take appropriate actions to safeguard or develop their competitive edge.

Mwangi (2007) conducted a research on strategic responses to changes in the external environment: A case of East African Breweries Limited. It was revealed that EABL uses strategic responses such as; market development, product development and modification, vertical integration, information systems change, innovation, product differentiation, outsourcing, shared services center, culture and structure changes, aggressive marketing campaigns and corporate social responsibility. Mkamunduli (2005) investigated strategic issue management in the insurance companies in Kenya. The study concluded that carried out a study on strategic issue management in the insurance companies in Kenya and concluded that the business environmental changes have become more complex and unique hence, failure to address strategic issues could affect performance. A lot of research has been done on strategic response to changes in external environment but none has been done on strategic responses to the declining underwriting profitability in insurance industry in Kenya. Therefore the study tends to close the gap and add more knowledge.

1.3 Purpose of the Study

The purpose of this study was to establish the strategic responses being adopted by General Insurance companies in Kenya to address underwriting profitability.

1.4 Research Questions

The study was guided by the following research questions.

1.4.1 What are the underwriting strategies being employed to address underwriting profitability?

1.4.2 What are the Claims strategies being employed to address underwriting profitability?

1.4.3 What are the Product development strategies being employed to address underwriting profitability?

1.5 Significance of the Study

1.5.1 Government

Kenyan government will use findings from this study to come with new policies that will enable insurance companies develop strategic response strategies that they can use to increase profits and become more competitive.

1.5.2 Researchers

This study will be of importance to academics and scholars. The study will contribute to a body of knowledge. Researches can use this study to identify gaps and investigate how strategic responses affect profitability in other industries.

1.5.3 Insurance Companies

The study is expected to be of great importance to insurance companies and their stakeholders. It will enable insurance companies identify if strategies responses they have put in place have helped become profitable. It will also help insurance companies identify other strategies that can use to become competitive

1.6 Scope of the Study

The study focused on strategic responses to the declining underwriting profitability in insurance industry in Kenya. The study was to investigate underwriting strategies, claims strategies and operations excellence being used by insurance companies in Kenya to increasing underwriting losses. Population of the study was 80 employees. The study was carried out from January to May 2018.

1.7 Definition of Terms

1.7.1 Strategic Response

Strategic responses are a group of actions and decisions which enables an organization formulate and execute a plan hence achieve its objectives (Njuguna, 2014).

1.7.2 Mergers

Merger is the activity by which two or more companies decide to come together and function as one to achieve strategic objectives or goals like resource sharing, resource utilization, economies of scale or cost minimization or any other operational or financial advantage for both the companies (Salim, 2011).

1.7.3 Product Differentiation

Product differentiation is the process where firms provide products that that competitors are not yet offering or are not able to copy (Porter 1980).

1.8 Chapter Summary

The chapter presents background of the study. It has also highlighted problem statement and research objectives, significance of the study, and scope of the study and definition of terms. Chapter two will cover literature review based on research questions. Chapter three will explore research methodology that will be used whereas, chapter four will present results and findings and chapter five will discuss summaries and findings of the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter gives the details of the literature review and existing research gaps in relation to underwriting profitability. The section is subdivided into various components. The first section of the literature review looks at the effect of the underwriting strategies on the company's underwriting profitability. The second section determines the effect of claims strategies on the company's underwriting profitability. The third section examines the effect of the operational strategies on the company's underwriting profitability. The chapter ends with the summary.

2.2. The effects of Underwriting Strategies on Underwriting Profitability

2.2.1 Focus Strategy and the Underwriting Profitability

In the focus strategies, the attention of the firm will be on one particular segment of the market. In this case the attention would be a certain customer group, a certain product, a certain region, or a certain service (Afuah, 2013). This dimension is not a separate strategy for big companies due to small market conditions. Big companies which chose applying differentiation strategies may also choose to apply in conjunction with focus strategies. On the other hand, this is definitely an appropriate strategy for small companies especially for those wanting to avoid competition with big ones.

In adopting a narrow focus, the company ideally focuses on a few target markets (also called a segmentation strategy or niche strategy). These should be distinct groups with specialized needs. The choice of offering low prices or differentiated products/services should depend on the needs of the selected segment and the resources and capabilities of the firm. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market and improve on underwriting profitability (Zekiri & Nedelea, 2011). A focused strategy should target market segments that are less vulnerable to substitutes or where competition is weakest to earn above-average return on investment (Afuah, 2013).

Companies that utilize Focus strategies focus on specific specialty markets and, by understanding the progression of that market and the one of a kind need of clients inside it, grow interestingly minimal effort or all around determined items for the market. Since they serve clients in their market particularly well, they tend to manufacture solid brand reliability among their clients. This influences their specific market to section less appealing to contenders (Weir & Mcknight, 2012). These generic strategies are not really good with each other. In the event that a firm endeavors to accomplish favorable position on all fronts, in this endeavor, it might accomplish no preferred standpoint by any stretch of the imagination. For instance, if a firm separates itself by providing fantastic items, it dangers undermining that quality on the off chance that it tries to end up a cost pioneer also. Regardless of whether the quality did not endure, the firm would chance anticipating a befuddling picture. Hence, Porter contended that to be fruitful over the long haul, a firm should choose just a single of these three generic strategies.

Otherwise, with more than one single generic strategy the firm will be “stuck in the middle” and will not achieve a competitive advantage. Afuah argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating into different units having different policies and even different cultures, a corporation is less likely to become stuck in the middle (Afuah, 2013). However, there exists a viewpoint that a single generic strategy is not always best because within the same product, customers often seek multi-dimensional satisfactions such as a combination of quality, style, convenience, and price (Zekiri & Nedelea, 2011).

There have been cases in which high quality producers faithfully followed a single strategy and then suffered greatly when another firm entered the market with a lower-quality product that better met the overall needs of the customers. Niche/focus strategy is also a strategy for sustainable competitive advantage. Here the organization focuses on a particular segment (Niche) and becomes well known for providing quality or low cost products or services to the segment. By doing so the firm gains competitive advantage and continuously strives to sustain it by being the cost leader or high quality provider. With both of these strategies the organization can also focus by offering particular segments a differentiated product or service. The key is that the product or service is focused on a particular segment (Weir & Mcknight, 2012).

Zekiri and Nedelea (2011) also proposed an alternative approach to generic strategy and called them value disciplines. They believe that strategies must Centre on delivering superior customers value through one of the three value disciplines: operational excellence, customer intimacy, or product leadership (Weir & Mcknight, 2012). Companies that specialize in one of these disciplines, while simultaneously meeting industry standards in the other two, gain a sustainable lead in their market. This lead is derived from the firm's focus on one discipline aligning all aspects of operations with it. After transforming their organizations to focus on one discipline, companies can concentrate on smaller adjustments to produce incremental value.

2.2.2. Minimizing or Eliminating Manual Processes Strategy

In many insurance companies in developing countries, there is a lot of paperwork resulting to inefficiencies that translate to inconveniencies especially during enrolment and claims processing. Most companies manually file their records making work slow and cumbersome. In Kenya for instance, the increased growth in banking is largely due to automation (Hagendorff & Keasey, 2012). A number of reports have identified insurance companies as technology laggards. According to Forrester Research's Report Trends (2014), European companies are falling behind other companies in other sectors. The report indicates that startups and companies in the manufacturing, utility and telecoms markets could take business from traditional insurers. Insurance companies should open digital labs and run software projects, tap into internal and external talent and partner with digital firms to cope with the changing technological trends.

Research by Accenture (2013) which surveyed 6,000 consumers in 11 countries revealed that almost a quarter of consumers would consider large internet companies, such as Google and Amazon, as possible insurance providers. The study further established that 67% of 6,000 consumers surveyed in 11 countries would consider buying insurance from companies other than insurers. Some 23% cited online service providers as options. A report by EY (2015) indicates that a key challenge for insurers in 2015 is the need to develop more robust mobile digital technologies, data analytics and social media strategies to address growing consumer expectations of more refined product sales and distribution channels (Hagendorff & Keasey, 2012).

The grasping of new innovations in the business procedure has the capacity of guaranteeing that manual procedures are computerized and new functionalities made (Boubakri, 2011). The disposal of the manual procedures using technology empowers snappier turnaround time periods on benefit issues and better precision on routine work (Boubakri, 2011). Among the capacities that can be robotized incorporate the administrative and documenting capacities inside an association. This empowers the documenting of a lot of data and the recovering of a similar when required far considerably faster (Carrie, 2014). The utilization of the technology likewise makes new capacities that enhance the work process in an association in the setting new advances are frequently created to address existing difficulties in the business (Afuah, 2013). These new capacities have the ability of empowering work that was already bulky and tedious to be executed at a far considerably quicker pace. Afuah (2013) in this manner contends that the Information Technology (IT) improves benefit unwavering quality, decreases exchange mistakes, expands consistence in execution and alters benefit.

According to Kimani and Juma (2015), most established companies in the insurance industry have been slow to adopt digital tools, relative to other industries, such as retail, media, travel and retail banking. One of the reason for the slow adoption of digital technology is that general insurance lacks continuous customer engagement through the insurance policy duration and hence the inability to keep track of the changing customer needs and making timely provision for those in need. This notwithstanding, it remains the responsibility of the insurance companies to work around these challenges and adopt relevant technologies if they are to avoid losses.

2.2.3. Monitoring of Underwriting Profit and Investments Income Strategy

The misfortune proportion is widely depended in assessing protection guaranteeing comes about. The misfortune proportion fundamentally measures misfortune installments in respect to premium pay however there is no consistency in definitions and numerous renditions exist (Johne & Davies, 2014). The exactness of the misfortune proportion is controlled by estimation blunders and estimation issues of brought about misfortunes and premium pay. Where the development of the two arrangements is genuinely consistent after some time, vague coordinating is leveled out along these lines fundamentally diminishing the inclination of the misfortune proportion. Despite the fact that it might cause a bungle, time estimation of cash is disregarded in protection hypothesis (Johne, &

Davies,2014). The reason for the guaranteeing cycles is multifaceted and complex components being the driver with prove affect on back up plans' benefit. Protection lines assortment impacts the general execution and back up plans with more assortment enhance their chances of beating guarantors with less assortment (Niskamen, 2013).The desires are the bigger the top notch pay the better the execution in respect to little safety net providers.

At times, regulation limits the choice of insurers in determination of pricing of some risks. Price capping can limit underwriting profitability and to some extent the fund generating ability. For instance, in Kenya IRA monitors the premium rates for listed (mega) risks by setting the minimum premium rates that an insurer must charge. In USA crop insurers are price takers as the premium rates and underwriting guidelines are set by the Risk Management Agency (RMA) which is an agency established by Federal Crop Insurance Corporation (FCIC) (Hagendorff & Keasey, 2012). In case of USA, Crop Insurers assume large potential risk exposure without recourse to raising premium rates or declining to cover high-risk individuals for them to participate under the federal program. The federal government assumes most of the risks while less risky business can be placed in funds where the insurers pays more for underwriting losses and keeps more of underwriting gains. How well an insurer classifies their risks and manages their portfolio determines the underwriting returns (Hagendorff & Keasey, 2012).

On the supply side, the insurers may not offer as many insurance lines because of significant long-term insolvency cost even if the underwriting returns are positive and insurers are risk neutral (Carrie, 2014). Under the multi-period formulation, the demand and supply curves may differ substantially from those under single period formulation. It is imperative that insurers make optimal choices of the insurance lines that offer short-term returns bearing in mind the demand side preferences. The cover duration of most lines of general insurance is twelve calendar months hence the short-term outlook.

2.3. The Claims Strategies and Underwriting Profitability

2.3.1. Technology Strategy

Currently, technology is fundamentally re-aligning business relationships between insurance companies and their customers. Competitive contention in the payment innovations moves from single delivery channel towards integrated delivery channels.

This is because consumers no longer express the preference to any single channel. As insurers face new challenges in the electronic payment (e-payment) world, they need to leverage their information technology (IT) strategy to be aligned with business strategy (Niskamen, 2013).

The traditional strategy of insurers in the payment innovations is innovative strategy aiming to compete based on the size. Insurance firms with extensive branch networks tend to capture more customers than those with fewer branches. The traditional insurance firms are moving towards integrated delivery channels and the adoption of the click strategy (Hagendorff & Keasey, 2012). This is because the competitive alternatives in the insurance payment transmission system (e.g. Internet, mobile phones) mean that insurance firms cannot use a network for clearing and settlements as an achievement of innovation. The overall thrust is that insurance realize the importance of having control over the payment networks so that they have market power, and accordingly, competitive advantage over other competitors.

Technological developments particularly in the area of Telecommunications and Information Technology are revolutionizing the way business is done. Electronic commerce (e-commerce) is the activity in which consumers get information and purchase products using Internet technology (Niskamen, 2013). This revolution in the market place has set in motion a revolution in the insurance sector for the provision of a payment system that is compatible with the demands of the electronic marketplace. Consequently, the potential benefits of e-commerce have been widely touted.

New analytics tools such as synthetic data and unstructured text applications add to the already powerful analytics repertoire and create opportunities for both profitability and efficiencies in claims administration, underwriting, marketing and distribution (Carrie, 2014). Companies have to capture and analyze multiple sources of data—internally from diverse product databases and claims systems and externally from a range of public domain data sources to develop insights that enable better and more informed decisions (Carrie, 2014).

2.3.2. Innovation Strategy

Innovation exercises are by and large arranged as either incremental or radical. The refinement between these two unique writes represents how associations approach innovation in various ways. An aggregate arrangement of minor changes or acquainting something comparable with past authoritative practices is called an incremental or routine innovation, while a sudden significant change or accomplishing something uniquely not the same as what the association had done before is known as a radical innovation (Hagendorff & Keasey, 2012). In spite of the fact that there has been wrangle over which sort of improving movement is more vital and compelling, the more sharp supervisors comprehend the need for both. James (2002) said that planning the acquaintance of radical innovations with remain in front of rivalry, while at the same time using incremental innovations to boost benefits is a noteworthy test for contemporary business directors. Hamdouch and Samuelides (2001) likewise announced that in the administration business, the innovation procedure is both cyclic and aggregate, joining radical innovations and acquainting incremental innovations with fill the hole between two radical innovations.

In addition to the dichotomous categorization of innovations, (Kiragu, 2014) suggested the inclusion of various types of innovation such as technological, administrative, and ancillary innovations. Although technological innovation drives most organizations, the proof of technological innovation resides in the marketplace, which requires facilitating marketing and administration measures. Technological innovation without comparable levels of innovation from all sectors of an organization significantly reduces the benefits of investing in innovation (Kiragu, 2014). Although not all firms should be innovative in the same manner, several scholars have suggested that innovation needs to be directed at new products or services, new organizational structures or administrative systems, new process technologies or new programs pertaining to organizational members for these typically occur simultaneously (Weir & Mcknight, 2012). In addition to the above-mentioned factors, some scholars placed special emphasis on the importance of strategic innovation, because it may change the direction of the company and even the rules of the game in an industry (Hagendorff & Keasey, 2012).

Examining how companies actually practice innovation may unveil the black box of innovation and help translate it from a mere concept into action and competitiveness. We first surveyed two layers of innovation classification. The first layer examined the nature of innovation, for example, incremental and/or radical. The second layer further probed four different types of innovation, namely technological, marketing, administrative, and strategic innovations for both incremental and radical innovations. The definitions of these four different types of innovation will be provided in the “Measurement” section to avoid redundancy (Kiragu, 2014).

Furthermore, investigation of the relationship between innovation and organizational performance is paramount. Previous studies of this link indicated mixed results, some positive, some negative, and some showed no relationship at (Zekiri, & Nedelea, 2011). Shaw (2013) argued that the association between innovation and firm performance depends on the performance measurement and the characteristics of a given organization. That is, the utilization of objective or subjective performance indicators such as sales or self-reported performance may lead to different research results. In addition, different types or different combinations of innovation, such as technological innovation alone or the combination of technological and marketing innovations may also result in divergent organizational performances.

According to Afuah (2013), incremental technological innovations help improve company competitiveness with the ultimate aim of increasing company value. Incremental market innovation is about new ways of reading and serving current markets, which ensures firms to provide appropriate offers and yields greater avenues (Johne and Davies, 2014). In addition, Braganz (2013) reported that innovative marketing aims at increasing product consumption and has a positive influence on firm sales. Furthermore, continuous work process innovation was regarded as the most important action for improving the short-term profitability (Johne, & Davies, 2014). Braganz (2013) also reported that an incremental strategy is the major driving force behind any improvement effort. Apparently, incremental innovation leads to the accumulation of day-by-day improvements and is the backbone of organizational performance.

Adopting radical innovation has mixed results. Various scholars commented that radical or breakthrough innovations provide the engine for long-term growth (Afuah, 2013).

Many small companies also succeeded in introducing more radical innovations because of their genetic makeup (Carrie, 2012). However, some argue that the linkage of radical innovation and performance is an S-curve shape because of diminishing research effort and resource inefficiencies (Drejer, 2014). In many cases, the creative destruction effect of radical innovation may not be shown in a short term horizon and even release a negative impact on firm performance (Shaw, 2013).

2.3.3. Policy Interpretation Strategy

An insurance policy is a legal contract between the insurance company (the insurer) and the person(s), business, or entity being insured (the insured). Reading the policy on the part of the underwriting officers' helps in verifying that the policy meets ones needs and that they understand their responsibilities and those of the insurance company should a loss occur. Many underwriting officers evaluate losses without understanding what is covered in the policy, the conditions that must be met in order for the cover to apply when a loss occurs and the exclusions that take away coverage (National Association of Insurance Commissioners- NAIC, 2010). In other instances, the underwriting officers read the policies but misinterpret certain clauses. Hence their loss evaluations sometimes differ with what is contained in the policy document as far as the insurance company is concerned. This may pose losses in the underwriting department in case of any eventualities where the customer seeks compensation and their expectations are not met (Braganz, 2013).

The desire of the protected is that when misfortunes happen, there will be sufficient remuneration gave paying little heed to the under assessment by the guaranteeing officers, this desire may however not be met inferable from the different terms and conditions and the many-sided quality that describes the protection contract. Depicting the unpredictable idea of protection, Weir and Mcknight (2012) watches that protection items are mind boggling legitimate contracts that can be ineffectively comprehended by the representatives and in addition the customers, especially individual protection buyers. The protection contract being cement in nature where the backup plan has all control in drafting the agreement, the safety net provider has inseparably made an asymmetry of energy between the gatherings included. In such cases, the safety net providers have the

power which they have been utilizing to secure themselves, here and there to the weakness of the safeguarded (Braganz, 2013).

2.4. Product Development Strategies and Underwriting Profitability

In increasingly competitive markets, differentiation is an important part of any business in the market. It not only helps firms differentiate themselves from other competitors, but also improve their products or services. Being in a market, where considerable differentiation exists, is much better than being in a commodity market where differentiation between products is impossible (Sharp & Dawes, 2001). The question for any entrepreneur is how to differentiate themselves from competitors while still serving the appropriate customer segments in a suitable market?

2.4.1 Product Differentiation

The generic strategies as developed by Porter (1980) for achieving a competitive advantage position by an organization are: product differentiation and cost leadership. Product differentiation being the most commonly used one of these two strategic typologies (Spencer, Joiner & Salmon, 2009). A differentiation strategy involves the firm creating a product/service, which is considered unique in some aspect that the customer values because the customer's needs are satisfied. On the other hand, cost leadership emphasizes low cost relative to that of the competitors (Porter, 1980). Nevertheless, past researches have shown that a number of the manufacturing organizations view the differentiation strategy as a more important and distinct means to achieve competitive advantage in constrict to a low cost strategy (Baines & Langfield-Smith, 2003).

Hang (2015) sought to assess the differentiation strategies that entrepreneurs in small service firms in Norway apply, under the impact of customer interaction. A qualitative case study on Norwegian small service firms. The study assessed the ways entrepreneurs act in different circumstances based on feedback from customer interaction activities. Ten entrepreneurs were interviewed in this study. The interviews were conducted with open-ended questions in a semi-structured format. Analysis of the interviews identified the following strategies: being the first mover on a new market, and focus on customer satisfaction on an equilibrium market. In addition, no matter how long the firms have been established, the entrepreneurs tend to apply effectuation principles, even they do not know about that in first-hand experiences. Effectuation principles help the entrepreneurs

have quicker actions, adapt better the customers' needs and thereby make them different. Conclusion: The study showed that all entrepreneurs paid strong attention to customer interaction, they invited customers join from the first stages of service development to make sure that they could control the outcomes. The study also revealed that many Norwegian entrepreneurs did not pursue a low cost strategy. Instead, they focused on service values and quality for increasing customer satisfaction. However, the empirical data did not show clearly the ability of entrepreneurs to exploit contingencies since none of the companies studied appear to take this action.

Heiko, Anders and Lars (2011) examined the relationship among the complexity of customer needs, customer centricity, innovativeness, service differentiation, and business performance within the context of companies that have made a service transition from pure goods providers to service providers. A survey of 332 manufacturing companies provides the basis for the empirical investigation. One key finding is that a strong emphasis on service differentiation can lead to a manufacturing firm's strategies for customer centricity being less sensitive to increasingly complex customer needs, which can increase a firm's payoff for customer centricity. In contrast, the payoff from innovativeness appears to be higher if the firm focuses its resources on either product or service innovation; that is, a dual focus does not work well.

Changes in the business logic of manufacturing companies from pure goods providers to service providers may occur through an emphasis on service differentiation. Service differentiation is the extent to which a company focuses on service as its core offering and the extent to which customers regard the organization as a service provider (Jacob & Ulaga, 2008). Service differentiation translates into different ways to achieve competitive advantages through services. Potential strategic avenues for service differentiation capture customer support services, business consulting, integrated services, or operational service. Business consulting becomes especially salient when strategic consultancy advice is necessary to analyze the customer's business and identify problems in the customer's organization on the basis of experience (Gebauer, 2008).

Harla (2003) sought to establish if product differentiation provided competitive advantage for a printing paper companies. The motivation for this thesis emerged from unsolved problems encountered when the author worked in two product differentiation projects at two different paper mills in Finland in the 1980's and 2013's. Empirical data was collected

through 37 in-depth personal interviews in 1999 and 2000. The sample represents four Finnish paper industry companies, its customers (publishers, printers, merchants), its suppliers (both machine and chemical), as well as consultancy companies, the Finnish Technology Agency and a bank. The sample of paper industry experts is cross-functional. The research findings indicate that the role of initiator in this process is gradually moving from the paper producer towards the customer. Product differentiation used to be strongly manufacturer's technology pushed; presently it is both manufacturer's technology pushed and customer technology pushed. The findings of the research also indicate that value-based pricing should be considered for differentiated printing papers as an alternative to traditional costbased pricing.

Anna (2013) sought to find out which hotel services could bring competitive advantage to the Nevsky Hotel Grand and differentiate the hotel from the competitors. What could be improved in the services of the hotel or which kind of services could be created in the hotel in order to attract more customers and be competitive on the market. Results of the research show possible solutions for changes or improvements which can be made concerning the hotel services. Several suggestions for improvement were made concerning the breakfast and one of the biggest advantages of the hotel. Breakfast menu has to be changed and not repeated daily. Dishes have to be replaced on time during the breakfast. At the same time service of the staff has to be more efficient.

Kampire (2012) paper was a survey that sought to establish the competitive forces in the Rwandan market that affected the manner in which insurance business was conducted. It also sought to find out the competitive strategies the insurance companies in Rwanda adopted in face of the various forces of competition. The research was a survey that was to include all the insurance companies in Rwanda. Primary data was to be used to conduct the research. According to the results the most felt forces were; Price wars with competitors, High costs of customers switching from a competitor to your companies, Wider branch networks of competitors. Study recommends that the insurance industry in Rwanda should be reorganized to allow for more competition. In a competitive market the most efficient and productive companies survive, while poor and inefficient firms get naturally weeded out. The government should reduce its presence in the insurance industry to allow for more competition from within and without the country. Mechanisms should be put in place to make the insurance industry more aggressive. An aggressive

business environment improves quality of service while driving down prices for the good of the consumers of insurance products.

Ouma (2016) sought to find out the relationship between competitive strategies and performance of insurance companies in Kenya. The questionnaire was the major tool of enquiry that collected primary data while secondary data from regulatory authorities was incorporated to supplement the data collected by questionnaires. The research findings were analyzed through regression analysis and it was established that competitive strategies adopted had a large influence on the firm performance as measured by both financial and non financial metrics and it was also established that more companies are adopting strategic alliances and partnerships in order to increase and maintain respective market shares. The research recommends that government through its various agencies should put in place appropriate policies which support the insurance firms as a way of increasing the contribution to the economy. Further research was recommended on establishing the effect of competitive advantage on the survival of insurance companies and how portfolio mix influences the adoption of generic competitive advantage strategies by insurance companies in Kenya.

Muia (2017) sought to investigate the effects of competitive strategies on the performance of insurance sector in Kenya. The target population consisted of all strategic planning department in the 47 insurance companies in Kenya listed under the membership of Association of Kenya insurance (AKI). A purposive sampling technique was used to select a sample of three employees from strategic planning department in each insurance company resulting in 141 respondents. Only 135 questionnaires were filled and returned representing 95.7%, this was sufficient for the study. To analyse the data, descriptive statistics such as mean, standard deviation, frequency and percentage were used. For inferential analysis correlation was used to measure the strength of the relationship between differentiation, focus, cost leadership and firm performance. Moreover, regression analysis was used to show the nature of the relationship between dependent and independent variables. Based on the first research question majority of the firms offer a broad range of products and economize on cost of materials. It was also established that many differentiate their product and a majority do not offer narrower range of product than competitors. A correlation analysis between differentiation strategy and performance was a strong positive one and the regression coefficients showed a positive and significant relationship between differentiation strategy and insurance performance.

2.4.2 New Product Development

To enable constant growth companies should master the process of a product launch through introducing new competitive products into the market. Product launches help increasing sales revenue and expanding the customer base. By introducing new products a company can also target new groups of customers. The launch of new products can also influence the company expansion and new internal investments. Continuous research and planning are necessary if a company wants to achieve a successful product launch. During this process all the employees of the company are involved, from the R&D to the Sales and Marketing team. (Gluck, 2012).

To be successful and attract the customer attention, the new product must fulfil their needs and maintain the brand promise. In today's market quality of the product is not the only aspect which customers are looking for. The price, function and status of the product are also very important. An adequate research and strategic planning are necessary before presenting the new products to the customer (Gluck, 2012). In a product launch strategy Gluck (2012) defines several important stages of product launch process. Such important stages are; development, internal testing, external testing, objective and goal setting, positioning, excitement building and event timing.

Kiragu (2016) sought to determine the influence of innovation on performance of insurance companies in Kenya. The study adopted the use of a descriptive crosssectional design. A census survey was used with the study population comprising all 49 insurance companies operational in Kenya as at 31st December 2014. Primary data was collected using structured questionnaires. Data was analyzed using SPSS statistical package program version 22 for descriptive and inferential statistics. The results of the study revealed that product innovation positively and significantly influences organizational performance. The results also showed that process innovation was the most predominant type of innovation in the insurance industry in Kenya. Additionally, the survey found that among the three types of innovation studied, process innovation registered the strongest correlation to organizational performance. The study recommended that management of insurance companies in Kenya should place greater emphasis on process innovation in order to improve performance. Further research should adopt a longitudinal research design, multiple informant approach, wider scope of study and the use of both objective and subjective measures to assess performance.

Camison and Lopez (2010) state that product innovation not only acts as a means of improving and safeguarding quality but also for cost saving. It is further lauded for retaining and growing the competitive position of a firm, as well as retaining a strong market presence. Products that are constantly improved are particularly important for long term business growth and performance (Bayus, Erickson & Jacobson, 2003). Product innovation is prevalent among new entrants in any industry as it has been used to boost their popularity in the market in a surprising short time (Hult *et al.*, 2004). It is used as a business strategy for any business trying to acquire a larger market share too as product innovations are believed to attract diverse customers with varied needs (Oke *et al.*, 2007).

In the modern world of hyper competition, firms do not only focus on product innovation (Oke *et al.*, 2007). They also explore process innovation to integrate improvements, service delivery as well as reduce cost to consumers (Danneels, 2000). Process innovation does not take place in a casual and offhand manner, but instead, includes the pressure of day to day business, vision creation, understanding the existing process and designing a new process. Equally, process innovation is a new approach of improving the organization's performance through incremental improvements rather than radical changes (Hippel, 2005). In most cases, the process innovation perspective embraces the top-down approach as well as the employee-based models. Top-down models have always been noted to be the mainstay of breakthrough innovation. Similarly, employee participation secures the employee commitment thereby, improving their performance (Rao, 2008).

Maina (2016) study sought to establish the effect of innovation strategies adopted on the performance of insurance firms in Kenya. The collected questionnaires were checked for consistency before being coded and entered into SPSS (version 21). Descriptive statistics such as frequency distribution and percentages were used to analyze general information. Means and standard deviations were used to analyze innovation strategies, operational performance and challenges of e-procurement. Regression analysis was used to explain the relationship between innovation strategies and the performance of insurance firms in Kenya. On the extent of innovation strategies implementation, the study concludes that product innovation strategies, technological innovation strategies, marketing innovation strategies and process innovation strategies should all be implemented by the insurance firms. In regard to the challenges faced by insurance firms in Kenya when implementing innovation strategies, the study concluded that challenges are faced to a moderate extent

with the most faced challenges being poor implementation innovative strategy, lack of a sound innovation management program and high cost of implementing new ideas. The study also concluded that there is a strong relationship between insurance innovation strategies and the performance of insurance firms in Kenya with e-procurement accounting for 35% of the total variance in the insurance firms' performance.

2.5 Chapter Summary

Highlighted literature reviewed in the above section showed how strategic responses being adopted by General Insurance companies in Kenya to address underwriting profitability. The first dimension discussed was the underwriting strategies being employed to address underwriting profitability. The second section reviews the claims strategies being employed to address underwriting profitability. The last dimension looked at the Product development strategies being employed to address underwriting profitability. In the next chapter, the research methodology used is presented, this includes, population, sample size, data collection and analysis methods employed.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This section will explore research methodology that the study adapted. The researcher discusses population and sample size, data collection methods. The chapter also discusses research procedures and data analysis method that will be used.

3.2 Research Design

Parahoo (1997:142) defines a research design as “a plan that describes how, when and where data are to be collected and analyzed”. Omair (2015) adds that a research design is a roadmap used by researchers to define method and procedures that was used to conduct the research. Research design is used to outline research objectives, describe sources of data to be collected, and identifies limitations that may affect the study (Saunders, 2003).

Descriptive research was used and according to Burns and Grove (2003:201), descriptive research “is designed to provide a picture of a situation as it naturally happens”. It may be used to justify current practice and make judgment and also to develop theories. Patton (2000) argues that descriptive research is used to investigate variables without manipulating them, and report various aspects that define competency. Quantitative research was used to predict and draw inferences regarding to study variables. According to Sekaran and Bougie (2010), quantitative research relies on deductive reasoning or deduction. Creswell (2013, p.18) argues that quantitative research “employ strategies of inquiry such as experimental and surveys, and collect data on predetermined instruments that yield statistical data. The independent variable was strategic response whereas the depended variable was under writing profitability.

3.3 Population and Sampling Design

3.3.1 Population

According to Parahoo (1997:218) population is “the total number of units from which data can be collected”, such as individuals, artifacts, events or organizations. Burns and Grove (2003:213) population is all the elements that meet the criteria for inclusion in a

study. The total population was 141 employees who work at general insurance. The study targeted employees in the various departments in the insurance sector.

Table 3.1: Population

Position	Frequency	Percentage
Business analyst	19	14
Business development manager	10	7
Chief Executive Officer	19	14
Claims managers	14	10
Commercial Executive	7	5
Finance managers	14	10
IT Applications Manager	5	3
Marketing manager	5	3
Salvage Administrator	5	3
Senior Underwriter	5	3
Underwriting	5	3
Underwriting or Reinsurance manager	33	24
Total	141	100

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

A sampling frame is the source material or device from which a sample is drawn. It acts as a representative of all elements within a population that can be sampled (Zikmund & Babin, 2012). Creswell (2013) adds that sampling frame is the whole list of entire cases in the population from which sample is derived. The sampling frame was 141 employees according to human resource records.

3.3.2.2 Sampling Technique

Sampling technique is the process of selecting sample that was used to conduct a study. It is used to group elements, determine sample size assign sample to classes of the frame elements and finally select the sample (Thomas, Nelson & Silverman, 2010). The study will use stratified random sampling. Stratified sampling technique is used to obtain representative sample. According to Mugenda and Mugenda (2003), stratified random sampling is the selection of subjects in such a way that the existing subgroups in the population are more or less reproduced in the sample. The study also used simple random sampling. This is because everybody was given a change of participating in the study.

3.3.2.3 Sample Size

A sample is a subset of a population selected to participate in the study, it is a fraction of the whole (Polit & Hungler, 1999). Bluman (2009) posit that researchers are able to save time and money if they used sample. From a sample of 141 employees the study sample of 58 employees was drawn. Yamane (1967) formula was used to the sample size whereby;

n = the sample size

N = the size of population

e = Margin of error

At 95% confidence level with $\pm 10\%$ precision:

Thus, the sample size for this study was;

$$n = N / 1 + Ne^2$$

$$n = 141 / 1 + 141 (0.1)^2$$

$$n = 59$$

Table 3.2: Sample Size

Position	Frequency	Percentage
Business analyst	8	14
Business development manager	4	7
Chief Executive Officer	8	14
Claims managers	6	10
Commercial Executive	3	5
Finance managers	6	10
IT Applications Manager	2	3
Marketing manager	2	3
Salvage Administrator	2	3
Senior Underwriter	2	3
Underwriting	2	3
Underwriting or Reinsurance manager	14	24
Total	59	100

3.4 Data Collection Methods

Data collection method is the process of gathering data for the purpose of fulfilling the research objectives (Duits, 2011). The study used primary data which was collected using structured questionnaires. Questionnaire were divided into sections; section one

demography, section two underwriting strategies being employed in response to the increasing underwriting losses, section three claims strategies being employed in response to the increasing underwriting losses and section four operations excellence being employed in response to the increasing underwriting losses. Likert scale will also be used in the questionnaire. According to Mugenda and Mugenda (2003) Likert scale has scales that help in converting the qualitative responses into quantitative values.

3.5 Research Procedures

A pilot test of ten questionnaires was conducted to check for accuracy. Pilot study is a small scale trial conducted to assess feasibility, time, cost, and unfavorable events, and effect size in an effort to predict suitable sample size and improve upon the study design prior to performance of a full-scale research study (Saunders, Lewis & Thornhil, 2012). Saunders, Lewis and Thornhil. (2016), sample size used to conduct a pilot should be sufficient enough and should include any major differences in the population that are expected to affect responses. Additionally the minimum number should be 10 respondents. According to Cooper and Schindler (2014), pilot testing is done to detect any weakness in the questionnaire and provide alternative data that can be used to select probability sample. Questionnaire was self-administered. Bryman and Bell (2011) add that use of self-administered questionnaire give respondents an opportunity to answer questions by completing the questionnaire themselves. Moreover, self-administered questionnaire are quicker to administer. Sekaran and Bougie (2013) adds that the main advantage of self-administered questionnaire is that questionnaires can be collected within a short period of time.

3.6 Data Analysis Methods

According to Kothari (2004), data analysis is the process of coding, categorizing, editing and tabulation of collected data to a controllable size, developing summaries and searching for patterns of relationship that exist among variables. The study used descriptive statistics to analyze data. Collected data will then be cleaned, coded and analyzed using Statistical Package for Social Sciences (SPSS). Correlation and regression analysis was conducted to determine relationship between variables. Frequencies, mean, variances and standard deviations was used to interpret data. Tables, figures and chart were used to present and analyze data.

3.7 Chapter Summary

The chapter has presented research methodology that was used. Descriptive study was used. Target population was employees who work at general insurance. Stratified sampling was used to select sample size. Structured questionnaire was used to collect data. The chapter has also highlighted research procedures and data analysis method that was used. In chapter four the results and findings will be presented, this will be based on the finding from the demography and response form the specific research questions.

CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presented the research findings on strategic responses being adopted by General Insurance companies in Kenya to address underwriting profitability. The study was conducted in the insurance sector and the results were analyzed and presented in the following section.

4.1.1 Response Rate

The research issued a total of 59 questionnaires and a total of 58 were filled and returned giving a response rate of 98.3% and this was considered sufficient for the study as indicated in Table 4.1 According to Mugenda and Mugenda (2013), a response rate of 50% is adequate for analysis and reporting: 60% is good while 70% is excellent. This study attained a 98.3% response rate therefore was excellent enough to represent the sample size.

Table 4.1: Response Rate

Variable	Frequency	Percentage
Filled and returned	58	98.3
Non-response	1	1.7
Total	59	100

4.2 General Information

4.2.1 Position in the Company

Analysis of the respondents' position in the company revealed that Reinsurance manager were the majority and accounted for 24.1%, while business analyst, and chief executive officer accounted for 13.8% respectively, Finance managers, Business development manager represented 10.3% of the total respondents. Commercial Executive, Underwriting, Marketing manager, Salvage Administrator, Senior Underwriter and IT

Applications Manager represented 3.4%. This implied that all the cadres were represented in the study and therefore minimized bias.

Table 4.2: Position in the Company

Variable	Frequency	Percent
Business analyst	8	13.8
Business development manager	4	6.9
Chief Executive Officer	8	13.8
Claims managers	6	10.3
Commercial Executive	2	3.4
Finance managers	6	10.3
IT Applications Manager	2	3.4
Marketing manager	2	3.4
Salvage Administrator	2	3.4
Senior Underwriter	2	3.4
Underwriting	2	3.4
Reinsurance manager	14	24.1
Total	58	100.0

4.2.2 Respondents Gender

Analysis of the respondents' gender revealed that male represented 45% with female being the majority representing 55%. As indicated in Figure 4.1, there was a balance between genders in the response rate, thus impartiality in regard to gender.

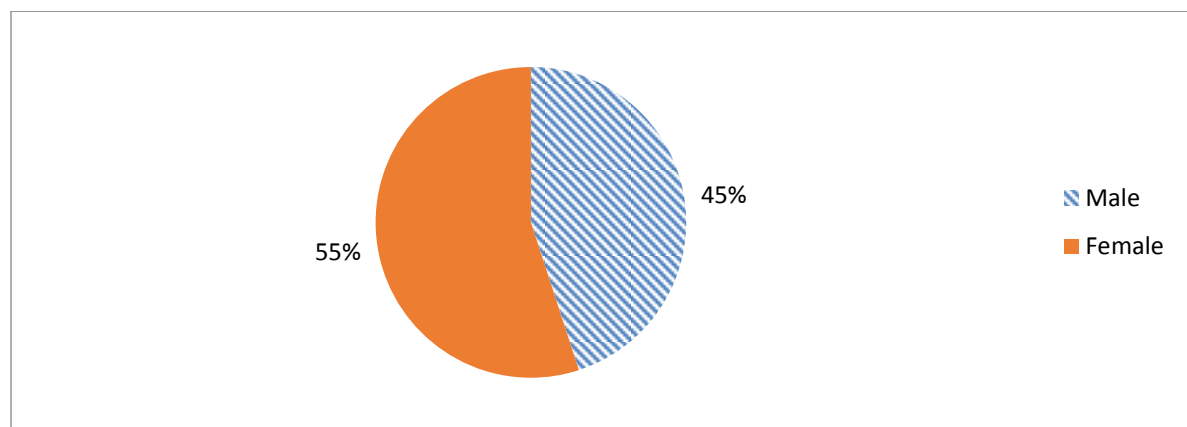


Figure 4.1: Respondents Gender

4.2.3 Education Level

Analysis of the respondents' education levels revealed that Degree and Masters holders accounted for 44.8% respectively, PhD holders were 6.9%, while diploma holders were

3.4% as indicated to Figure 4.2. This implied that the insurance employees had the right education to ensure prosperity of the sector.

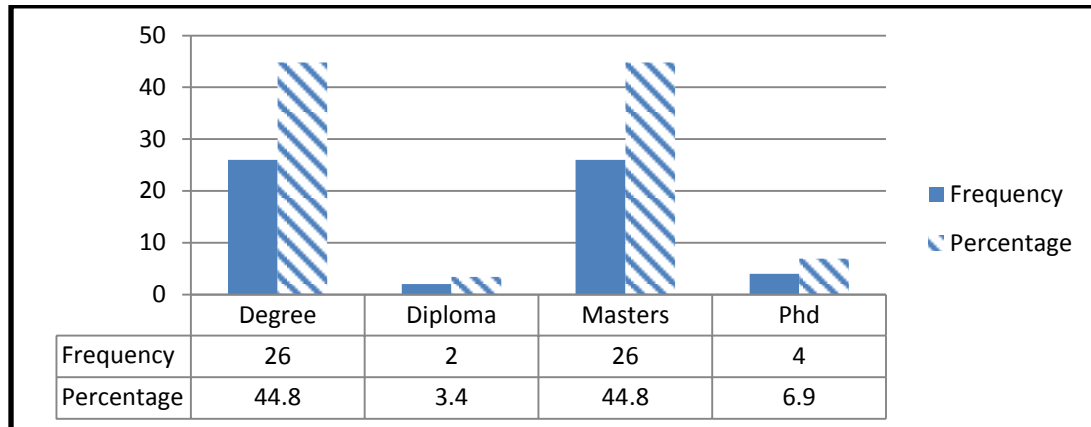


Figure 4.2: Education Level

4.2.4 Period Worked In The Insurance Company

Analysis of the years worked in the company revealed that those who had worked between 1-3 years were 38%, those who had worked for 4-6 Years were 28%, and on the other hand respondents who had 7-10 years were 24%, while those who had worked for over 10 years were only 10%. This implied that respondents had enough knowledge of the industry.

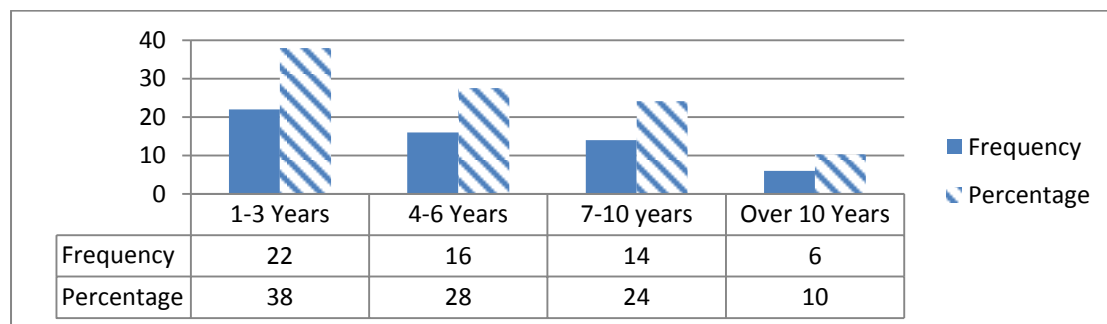


Figure 4.3: Period Worked in the Insurance Company

4.2.5 Insurance Company Operations

Analysis of the company years of operation revealed that those most of the firms had operated for over 10 years, those that had 4-6 years of operation were 17%, those with 7-10 years of operation were 7%, while those that had 1-3 years of operation were 3%. This implied that the companies had operated for a long time hence been able to apply the various strategies to improve profitability.

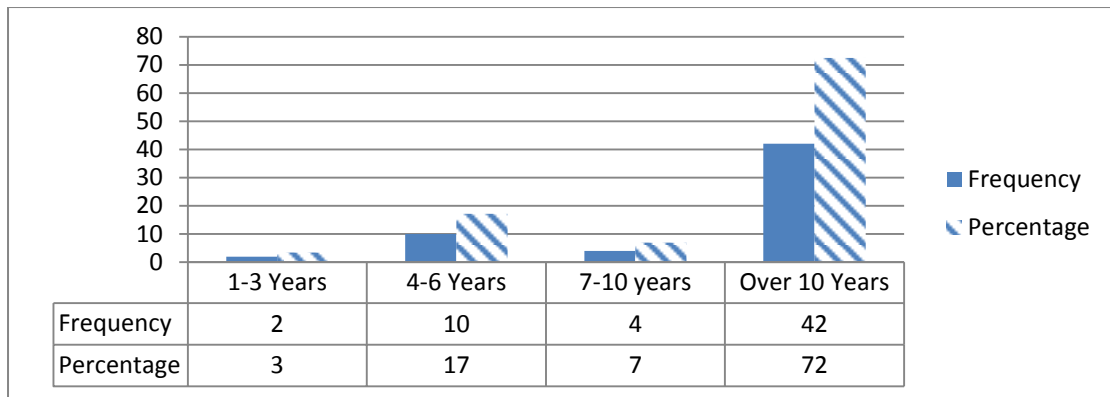


Figure 4.4: Insurance Company Operations

4.3 Underwriting Strategies Employed to Address Underwriting Profitability

The study sought to analyze the underwriting strategies employed to address underwriting profitability to achieve this objective, respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree.

4.3.1 Descriptive of Underwriting Strategies Employed

Majority agree that it is critical that the underwriting staff possess the right technical skill set to ensure prudent profitable underwriting ($m=4.52$, $sd= 1.232$). It was also established that insurance firms utilise pricing strategies and guidelines to increase profitability ($m=4.03$, $sd=1.199$). The risk assessments methods i.e. Risk verification and inspection used have helped improve underwriting results ($m=4.19$, $sd=1.029$). It was also revealed that risk profiling, rating and segmentation is critical for underwriting profitability ($m=4.68$, $sd=.855$).

Study also show that strategic partnership and relationship management aligned to cost management contributes to underwriting profitability ($m=4.36$, $sd= 1.017$).The service provider management plays an important role in supporting underwriting profitability ($m=4.29$, $sd=.967$), and portfolio management is key to improve underwriting profitability ($m=4.14$, $sd=. 962$). The findings also indicated that underwriting governance, processes and controls matrixes are necessary in an organisation that is keen in improving underwriting profitability ($m=4.61$, $sd=.779$).

Table 4.3: Descriptive Statistics of Underwriting Strategies Employed

Variable	n	m	sd
A1: It is critical that the underwriting staff possess the right technical skill set to ensure prudent profitable underwriting.	58	4.52	1.232
A2: Insurance firms utilise pricing strategies and guidelines to increase profitability.	58	4.03	1.199
A3: The risk assessments methods i.e. Risk verification and inspection used have helped improve underwriting results.	58	4.19	1.029
A4: Risk profiling, rating and segmentation is critical for underwriting profitability.	58	4.68	.855
A5: Strategic partnership and relationship management aligned to cost management contributes to underwriting profitability.	58	4.36	1.017
A6: The service provider management plays an important role in supporting underwriting profitability	58	4.29	.967
A7: Portfolio management is key to improve underwriting profitability.	58	4.14	.962
A8: Underwriting governance, processes and controls matrixes are necessary in an organisation that is keen in improving underwriting profitability	58	4.61	.779
A9: The aspects of risk surveys and experience adjustments plays a significant role in improving account profitability performance	58	4.50	.874
A10. It is important for insurance companies to focus on risk on-boarding i.e. risk enrollment checks /kyc prudence in efforts to improve underwriting profitability	58	4.54	.738
A11: The firm measures underwriting results as a key performance indicator (KPI)	58	4.43	.912

The aspects of risk surveys and experience adjustments plays a significant role in improving account profitability performance (m=4.50, sd=.874). It is important for insurance companies to focus on risk on-boarding i.e. risk enrollment checks /kyc prudence in efforts to improve underwriting profitability (m=4.54, sd=.738). The firm measures underwriting results as a key performance indicator (KPI) (m=4.43, sd=.912).

4.3.2 Correlation of Firm Profitability and Underwriting Strategy

A Pearson correlation was done to establish the relationship between underwriting profitability and underwriting strategy employed. the findings revealed that there was a

positive relationship between underwriting profitability and under writing strategies employed ($r=0.499$, $p<0.01$). Therefore it was concluded that under writing strategies employed significantly influenced underwriting profitability as shown in Table 4.4

Table 4.4: Correlation of Firm Profitability and Underwriting Strategy

		Profitability	Underwriting Strategies
profitability	Pearson Correlation	1	.499**
	Sig. (2-tailed)		.000
underwriting strategies	Pearson Correlation	.499**	1
	Sig. (2-tailed)	.000	
N		58	58

4.4 Claims Strategies Employed to Address Underwriting Profitability

The study sought to analyze the claims strategies employed to address underwriting profitability to achieve this objective, respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree.

4.4.1 Descriptive Statistics of Claims Strategies Employed

It was established that the insurance firms focuses on fraud detection and investigation as a measure of improving underwriting profitability ($m=4.14$, $sd=1.034$). In addition, insurance companies should adopt digitalization of technologies such as telematics and IT processes as a measure of improving underwriting profitability ($m=4.36$, $sd=.819$).

Incentives such as ‘no claims discounts in motor’ and health insurance wellness points and incentives shapes claimants behaviours thus improve underwriting profitability ($m=4.18$, $sd=1.046$). It is also established that firms should offer consumer/members education programs ($m=4.68$, $sd=.543$). The institution has benefited from quick payment turn around and operations efficiencies ($m=4.32$, $sd=.765$). It is necessary for a firm to have technical claims staff i.e. Assessors and adjustors ($m=4.64$, $sd=.724$).

Table 4.5: Descriptive Statistics of Claims Strategies Employed

Variable	n	m	sd
B1: The firm focuses on fraud detection and investigation as a measure of improving underwriting profitability	56	4.14	1.034
B2: Insurance companies should adopt digitalization of technologies such as telematics and IT processes as a measure of improving underwriting profitability	56	4.36	.819
B3: Incentives such as ‘no claims discounts in motor’ and health insurance wellness points and incentives shapes claimants behaviours thus improve underwriting profitability	56	4.18	1.046
B4: Firms should offer consumer/members education programs	56	4.68	.543
B5: The institution has benefited from quick payment turn around and operations efficiencies	56	4.32	.765
B6: It is necessary for a firm to have technical claims staff i.e. Assessors and adjustors	56	4.64	.724

4.4.2 Correlation of Firm Profitability and Claim strategies Employed

A Pearson correlation was done to establish the relationship between underwriting profitability and claim strategies employed. The findings revealed that there was a positive relationship between underwriting profitability and claim strategies employed ($r=0.570$, $p<0.01$). Therefore it was concluded that claim strategies employed significantly influenced underwriting profitability as shown in Table 4.6

Table 4.6: Correlation of Firm profitability and Claim Strategy Employed

		Profitability	Claim Strategies
profitability	Pearson Correlation	1	.570**
	Sig. (2-tailed)		
claim strategies	Pearson Correlation	.570**	1
	Sig. (2-tailed)	.000	
	N	58	58

4.5 Product Development Strategies Employed in Underwriting Profitability

The study sought to analyze product development strategies employed in underwriting profitability to achieve this objective, respondents were asked a set of questions to

indicate to what extent they agree or disagreed with statement. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree.

4.5.1 Descriptive Statistics of Product Development Strategies Employed

The findings indicated that the product mix strategy offers competitive pricing for profitable channels (m=4.04, sd=.953). The firm have customised our Product scope design; benefits, terms, limits to suit the various market needs (m=3.81, sd=.953). It was also established that the firm practice competitive product Pricing Strategies for our clients (m=4.00, sd=.869). Majority also agreed that the firm have segmented the market into different market segments (m=3.68, sd=1.114).

Table 4.7: Descriptive Statistics of Product Development Strategies Employed

Variable	n	m	sd
C1: Our Product Mix Strategy offers competitive pricing for profitable channels	56	4.04	.953
C2: The firm have customised our Product scope design; benefits, terms, limits to suit the various market needs	54	3.81	.953
C3: The firm practice competitive product Pricing Strategies for our clients	54	4.00	.869
C4: The firm have segmented the market into different market segments	56	3.68	1.114
C5: The firm undertakes a thorough Market Research (Research driven product design) to establish customer needs	56	3.50	1.128
C6: The firm ensures the product Distribution Channels reach all the clients.	54	4.04	.931
C7: The firm has an efficient Product Service Models through its digital platforms	56	3.39	1.056
C8. The firm offers Product Value Adds; like car insurance with home insurance	56	3.50	1.221
C9: The firm ensures Product Simplicity through installment premiums, online service	56	3.54	1.128
C10. Our clients enjoy value add and differentiated services from our partners e.g. call centers, fitness partners, towing services, first aid providers	56	3.79	.909

The study also established that the firm ensures the product Distribution Channels reach all the clients (m=4.04, sd=.931). The firm ensures Product Simplicity through installment premiums, online service (m=3.54, sd=1.128). It was also revealed that clients

enjoy value add and differentiated services from our partners e.g. call centers, fitness partners, towing services, first aid providers (m=3.79, sd=.909).

There was uncertainty of insurance firms undertaking a thorough Market Research (Research driven product design) to establish customer needs (m=3.50, sd=1.128). The firm having an efficient Product Service Models through its digital platforms(m=3.39, sd=1.056) or the firm offering Product Value Adds; like car insurance with home insurance (m=3.50, sd=1.221).

4.5.2 Correlation of Firm Profitability and Product Development

A Pearson correlation was done to establish the relationship between underwriting profitability and product development. The findings revealed that there was a positive relationship between underwriting profitability and product development (r=0.527, p<0.01). Therefore it was concluded that product development significantly influenced underwriting profitability as shown in Table 4.8

Table 4.8: Correlation of of Firm Profitability and Product Development

		Profitability	Product Development
Profitability	Pearson Correlation	1	
	Sig. (2-tailed)		
Product Development	Pearson Correlation	.527**	1
	Sig. (2-tailed)	.000	
	N	58	58

4.6 Underwriting Profitability

The study sought to analyze of the dependent variable (Underwriting Profitability), to achieve this objective, respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement. Using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agree.

4.6.1 Descriptive statistics of Underwriting Profitability

An analysis of the dependent variable (Underwriting Profitability) revealed that customers are informed of the insurance claim process (m=3.75, sd=.792). in addition, claims are resolved in a timely manner (m=3.57, sd=.828). The findings also show that

intermediaries plays an important role in claim process (m=3.89, sd=1.056). It was also revealed that working with agents make the claim process easy (m=4.02, sd=.725).

Table 4.9: Descriptive statistics of Underwriting Profitability

Variable	n	m	sd
E1: Customers are informed of the insurance claim process	56	3.75	.792
E2: Claims are resolved in a timely manner	56	3.57	.828
E3: Intermediaries plays an important role in claim process	56	3.89	1.056
E4: Working with agents make the claim process easy	56	4.02	.725

4.7 Inferential Statistics

4.7.1 Regression Analysis of Underwriting Profitability and Underwriting Strategies

The research analyzed the relationship between the dependent variable (underwriting profitability) against underwriting strategies. The results showed that adjusted R² value was 0.235 hence 23.5% of the variation in underwriting profitability was explained by the variations in underwriting strategies as illustrated in Table 4.8

Table 4.10: Model Summary of Underwriting Profitability

Model	R	R Square	Change Statistics				Sig. F		
			Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change		df1	df2
1	.499 ^a	.249	.235	.52373	.249	17.873	1	54	.000

a. Predictors: (Constant), underwriting strategies

4.7.1.1 Anova of Underwriting Profitability and Underwriting Strategies

ANOVA analysis results of the regression between underwriting profitability and underwriting strategies was done at 95% confidence level, the F critical was 17.873 and the P value was (0.000) therefore below 0.05 this implied that it was a statistically significant and can be used to assess the association between underwriting profitability and underwriting strategies as illustrated in Table 4.11

Table 4.11: Anova of Underwriting Profitability and Underwriting Strategies

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.903	1	4.903	17.873	.000 ^b
	Residual	14.812	54	.274		
	Total	19.714	55			

a. Dependent Variable: profitability

b. Predictors: (Constant), underwriting strategies

4.7.1.2 Coefficients of Underwriting Profitability and Underwriting Strategies

The regression equation illustrated in Table 4.12 established that taking underwriting strategies into account and other factors held constant underwriting profitability improved by 0.409 units. This implied that a unit change in underwriting strategies would lead to a 0.409 change in underwriting profitability.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

$$Y = 1.933 + 0.409 X_1 + .52373$$

Where:

Y is the dependent variable (underwriting profitability)

β_0 is the regression constant;

β_1 coefficients of independent variables;

X_1 is underwriting strategies, and ε is the error term

Table 4.12: Coefficients of Underwriting Profitability and Underwriting Strategies

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	1.933	.433		4.468	.000
	underwriting strategies	.409	.097	.499	4.228	.000

4.7.2 Regression Analysis of Underwriting Profitability and Claims Strategies

The research analyzed the relationship between the dependent variable (underwriting profitability) against claims strategies. The results showed that adjusted R^2 value was

0.313 hence 31.3% of the variation in underwriting profitability was explained by the variations in claim strategies as illustrated in Table 4.14

Table 4.13: Model Summary of Claims Strategies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change
						F	df1	df2	
1	.570 ^a	.325	.313	.49635	.325	17.873	1	54	.000

a. Predictors: (Constant), claims strategies

4.7.2.1 Anova of Underwriting Profitability and Claim Strategies

ANOVA analysis results of the regression between underwriting profitability and claims strategies was done at 95% confidence level, the F critical was 26.022 and the P value was (0.000) therefore below 0.05 this implied that it was a statistically significant and can be used to assess the association between underwriting profitability and claim strategies as illustrated in Table 4.15

Table 4.14: Anova of Underwriting Profitability and Claims Strategies

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.411	1	6.411	26.022	.000 ^b
	Residual	13.304	54	.246		
	Total	19.714	55			

a. Dependent Variable: profitability

b. Predictors: (Constant), claims strategies

4.7.2.2 Coefficients of Underwriting Profitability and Claims Strategies

The regression equation illustrated in Table 4.15 established that taking claims strategies into account and other factors held constant underwriting profitability improved by 0.571 units. This implied that a unit change in claims strategies would lead to a 0.571 change in underwriting profitability.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

$$Y = 1.234 + 0.571 X_1 + .49635$$

Where:

Y is the dependent variable (underwriting profitability)

β_0 is the regression constant;

β_1 coefficients of independent variables;

X_1 is claims strategies, and ϵ is the error term

Table 4.15: Coefficients of Underwriting Profitability and Claims Strategies

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.234	.495		2.491	.016
	claim strategies	.571	.112	.570	5.101	.000

4.7.3 Regression Analysis of Underwriting Profitability and Product Development

The research analyzed the relationship between the dependent variable (underwriting profitability) against product development. The results showed that adjusted R^2 value was 0.264 hence 26.4% of the variation in underwriting profitability was explained by the variations in product development strategies as illustrated in Table 4.16

Table 4.16: Model Summary of Product Development

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change
						F Change	df1	df2	
1	.527 ^a	.277	.264	.51362	.277	20.731	1	54	.000

a. Predictors: (Constant), Product Development

4.7.3.1 Anova of Underwriting Profitability and Product Development

ANOVA analysis results of the regression between underwriting profitability and claims strategies was done at 95% confidence level, the F critical was 20.731 and the P value was (0.000) therefore below 0.05 this implied that it was a statistically significant and can be used to assess the association between underwriting profitability and product development as illustrated in Table 4.17

Table 4.17: Anova of Underwriting Profitability and Product Development

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.469	1	5.469	20.731	.000 ^b
	Residual	14.245	54	.264		
	Total	19.714	55			

a. Dependent Variable: profitability

b. Predictors: (Constant), product development

4.7.3.2 Coefficients of Underwriting Profitability and Product Development

The regression equation illustrated in Table 4.19 established that taking product development strategy into account and other factors held constant underwriting profitability improved by 0.387 units. This implied that a unit change in product development would lead to a 0.387 change in underwriting profitability.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

$$Y = 2.297 + 0.387 X_1 + .51362$$

Where:

Y is the dependent variable (underwriting profitability)

β_0 is the regression constant;

β_1 coefficients of independent variables;

X_1 is product development, and ε is the error term

Table 4.18: Coefficients of Underwriting Profitability and Product Development

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	2.297	.324		7.089	.000
	product development	.387	.085	.527	4.553	.000

4.7.4 Multi regression Underwriting Profitability and Co factors

The research analyzed the relationship between the dependent variable (Underwriting Profitability) against product development, underwriting strategies, claim strategies. The results showed that the adjusted R^2 value was 0.367 hence 36.7% of the variation in

underwriting profitability was explained by the variations in product development, underwriting strategies, claim strategies as illustrated in Table 4.19

Table 4.19: Model Summary of Underwriting Profitability and Co factors

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change
						F	df1	df2	
1	.634 ^a	.402	.367	.47618	.402	11.648	3	52	.000

a. Predictors: (Constant), product development, underwriting strategies, claim strategies

4.7.4.1 ANOVA of Underwriting Profitability and Co factors

ANOVA analysis results of the regression between underwriting profitability and product development, underwriting strategies, claim strategies was done at 95% confidence level, the F critical was 11.648 and the P value was (0.000) therefore below 0.05 this implied that it was a statistically significant and can be used to assess the association between underwriting profitability and product development as illustrated in Table 4.21

Table 4.20: ANOVA of Underwriting Profitability and Co factors

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.924	3	2.641	11.648	.000 ^b
	Residual	11.791	52	.227		
	Total	19.714	55			

a. Dependent Variable: profitability

b. Predictors: (Constant), product development, underwriting strategies, claim strategies

4.7.4.2 Coefficient of Underwriting Profitability and Co factors

The regression equation illustrated in Table 4.22 established that taking product development, underwriting strategies and claim strategies into account and other factors held constant a unit change in underwriting strategies led to a 0.091 positive change in underwriting profitability, at the same time a unit change in claim strategies led to a 0.317 positive change in underwriting profitability, and a unit change in product development led to a 0.232 positive change in underwriting profitability holding all factors constant.

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

$$Y = 1.083 + 0.091 X_1 + .317X_2 + .232X_3 + .47618$$

Where:

Y is the dependent variable (employee performance)

β_0 is the regression constant;

$\beta_1, \beta_2, \beta_3$ coefficients of independent variables;

X_1 is underwriting strategies, X_2 claim strategies, X_3 product development and ε is the error term.

Table 4.21: Coefficients of Underwriting Profitability and Co factors

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.083	.479		2.263	.028
	underwriting strategies	.091	.149	.110	.607	.547
	claim strategies	.317	.194	.317	1.637	.108
	product development	.232	.092	.316	2.512	.015

4.8 Chapter Summary

This chapter presented the results established from the data analysis done and presented data on employee demography and specific research objectives that established strategic responses being adopted by General Insurance companies in Kenya to address underwriting profitability. Subsequently in the section, the data was presented in line with the specific objectives of the study which sought to establish underwriting strategies, claims strategies and product development strategies employed to address underwriting profitability. Chapter five offers the discussions, conclusions and recommendations of the study.

CHAPTER FIVE

5.0 DISCUSSION CONCLUSION AND RECOMMENDATION

5.1 Introduction

This section offered discussions of the findings in line with the literature review on the strategic responses being adopted by General Insurance companies. This was organized based on the specific research questions which established how underwriting strategies, claims strategies and product development strategies employed to address underwriting profitability. The conclusion and recommendation were represented thereafter.

5.2 Summary

The purpose of this study was to establish the strategic responses being adopted by General Insurance companies in Kenya to address underwriting profitability. The study was guided by three research questions. This sought to establish underwriting strategies being employed to address underwriting profitability, the claims strategies being employed to address underwriting profitability and the product development strategies being employed to address underwriting profitability.

The research adopted a descriptive research and the study targeted a total population of 141 employees' in the general insurance. The stratified simple random sampling technique was used as it was effective for the study. A sample of 59 questionnaires was considered adequate and was arrived at using Yamane formula although only 58 respondents returned the questionnaires. The tool used to collect the data was a structured questionnaire. The statistical package for social sciences (SPSS Version 25) data analysis software was used to analyze data based on descriptive and inferential statistics. The study also used a correlation analysis and regression analysis that established the relationship between the dependent variable and the independent variables and data was presented using tables and figures.

A Pearson correlation was done to establish the relationship between underwriting profitability and other factors and the findings revealed that there was a positive relationship between underwriting profitability and under writing strategies employed. The regression analysis showed that variation in underwriting profitability was explained

by the variations in underwriting strategies. ANOVA analysis results of the regression between underwriting profitability and underwriting strategies was done at 95% confidence level, the F critical was statistically significant and can be used to assess the association between underwriting profitability and underwriting strategies.

A Pearson correlation was done to establish the relationship between underwriting profitability and claim strategies, the findings revealed that there was a positive relationship between underwriting profitability and claim strategies employed. The regression analysis showed that variation in underwriting profitability was explained by the variations in claim strategies. ANOVA analysis results of the regression between underwriting profitability and underwriting claims strategies was done at 95% confidence level, the F critical was statistically significant and can be used to assess the association between underwriting profitability and underwriting strategies.

A Pearson correlation was done to establish the relationship between underwriting profitability and product development strategies, the findings revealed that there was a positive relationship between underwriting profitability and product development strategies employed. The regression analysis showed that variation in underwriting profitability was explained by the variations in product development claim strategies. ANOVA analysis results of the regression between underwriting profitability and product development strategies was done at 95% confidence level, the F critical was statistically significant and can be used to assess the association between underwriting profitability and product development strategies.

5.3 Discussion

5.3.1 Underwriting Strategies Employed to Address Underwriting Profitability

It was established that its critical that the underwriting staff possess the right technical skill set to ensure prudent profitable underwriting. In many insurance companies in developing countries, there is a lot of paperwork resulting to inefficiencies that translate to inconveniencies especially during enrolment and claims processing. Most companies manually file their records making work slow and cumbersome. In Kenya for instance, the increased growth in banking is largely due to automation (Hagendorff & Keasey, 2012). A number of reports have identified insurance companies as technology laggards. According to Forrester Research's Report Trends (2014), European companies are falling behind other companies in other sectors. The report indicates that startups and companies

in the manufacturing, utility and telecoms markets could take business from traditional insurers. Insurance companies should open digital labs and run software projects, tap into internal and external talent and partner with digital firms to cope with the changing technological trends.

It was also established that insurance firms utilise pricing strategies and guidelines to increase profitability. Zekiri and Nedelea (2011) notes that in adopting a narrow focus, the company ideally focuses on a few target markets (also called a segmentation strategy or niche strategy). These should be distinct groups with specialized needs. The choice of offering low prices or differentiated products/services should depend on the needs of the selected segment and the resources and capabilities of the firm. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market and improve on underwriting profitability (Zekiri, & Nedelea, 2011). A focused strategy should target market segments that are less vulnerable to substitutes or where competition is weakest to earn above-average return on investment (Afuah, 2013).

Findings show that risk profiling, rating and segmentation is critical for underwriting profitability. The grasping of new innovations in the business procedure has the capacity of guaranteeing that manual procedures are computerized and new functionalities made (Boubakri, 2011). The disposal of the manual procedures using technology empowers snappier turnaround time periods on benefit issues and better precision on routine work (Boubakri, 2011). Among the capacities that can be robotized incorporate the administrative and documenting capacities inside an association. This empowers the documenting of a lot of data and the recovering of a similar when required far considerably faster (carrie, 2014). The utilization of the technology likewise makes new capacities that enhance the work process in an association in the setting new advances are frequently created to address existing difficulties in the business (Afuah, 2013). These new capacities have the ability of empowering work that was already bulky and tedious to be executed at a far considerably quicker pace. Afuah (2013) in this manner contends that the Information Technology (IT) improves benefit unwavering quality, decreases exchange mistakes, expands consistence in execution and alters benefit.

The service provider management plays an important role in supporting underwriting profitability. The grasping of new innovations in the business procedure has the capacity

of guaranteeing that manual procedures are computerized and new functionalities made (Boubakri, 2011). The disposal of the manual procedures using technology empowers snappier turnaround time periods on benefit issues and better precision on routine work (Boubakri, 2011). Among the capacities that can be robotized incorporate the administrative and documenting capacities inside an association. This empowers the documenting of a lot of data and the recovering of a similar when required far considerably faster (carrie, 2014). The utilization of the technology likewise makes new capacities that enhance the work process in an association in the setting new advances are frequently created to address existing difficulties in the business (Afuah, 2013). These new capacities have the ability of empowering work that was already bulky and tedious to be executed at a far considerably quicker pace. Afuah (2013) in this manner contends that the Information Technology (IT) improves benefit unwavering quality, decreases exchange mistakes, expands consistence in execution and alters benefit.

It is important for insurance companies to focus on risk on-boarding i.e. risk enrollment checks /kyc prudence in efforts to improve underwriting profitability. Zekiri and Nedelea (2011) also proposed an alternative approach to generic strategy and called them value disciplines. They believe that strategies must Centre on delivering superior customers value through one of the three value disciplines: operational excellence, customer intimacy, or product leadership (Weir, & Mcknight, 2012). Companies that specialize in one of these disciplines, while simultaneously meeting industry standards in the other two, gain a sustainable lead in their market. This lead is derived from the firm's focus on one discipline aligning all aspects of operations with it. After transforming their organizations to focus on one discipline, companies can concentrate on smaller adjustments to produce incremental value.

5.3.2 Claim Strategies Employed to Address Underwriting Profitability

It was established that insurance companies should adopt digitalization of technologies such as telematics and IT processes as a measure of improving underwriting profitability. Currently, technology is fundamentally re-aligning business relationships between insurance companies and their customers. Competitive contention in the payment innovations moves from single delivery channel towards integrated delivery channels. This is because consumers no longer express the preference to any single channel. As insurers face new challenges in the electronic payment (e-payment) world, they need to

leverage their information technology (IT) strategy to be aligned with business strategy (Niskamen, 2013).

It was established that firms should offer consumer/members education programs. Technological innovation without comparable levels of innovation from all sectors of an organization significantly reduces the benefits of investing in innovation (Kiragu, 2014). Although not all firms should be innovative in the same manner, several scholars have suggested that innovation needs to be directed at new products or services, new organizational structures or administrative systems, new process technologies or new programs pertaining to organizational members for these typically occur simultaneously (Weir, & Mcknight, 2012). In addition to the above-mentioned factors, some scholars placed special emphasis on the importance of strategic innovation, because it may change the direction of the company and even the rules of the game in an industry (Hagendorff, & Keasey, 2012).

James (2002) said that planning the acquaintance of radical innovations with remain in front of rivalry, while at the same time using incremental innovations to boost benefits is a noteworthy test for contemporary business directors. Hamdouch and Samuelides (2001) likewise announced that in the administration business, the innovation procedure is both cyclic and aggregate, joining radical innovations and acquainting incremental innovations with fill the hole between two radical innovations.

The institution has benefited from quick payment turn around and operations efficiencies. The traditional strategy of insurers in the payment innovations is innovative strategy aiming to compete based on the size. Insurance firms with extensive branch networks tend to capture more customers than those with fewer branches. The traditional insurance firms are moving towards integrated delivery channels and the adoption of the click strategy (Hagendorff, & Keasey, 2012). This is because the competitive alternatives in the insurance payment transmission system (e.g. Internet, mobile phones) mean that insurance firms cannot use a network for clearing and settlements as an achievement of innovation. The overall thrust is that insurance realize the importance of having control over the payment networks so that they have market power, and accordingly, competitive advantage over other competitors.

A Pearson correlation was done to establish the relationship between underwriting profitability and claim strategies, the findings revealed that there was a positive relationship between underwriting profitability and claim strategies employed. According to Afuah (2013), incremental technological innovations help improve company competitiveness with the ultimate aim of increasing company value. Incremental market innovation is about new ways of reading and serving current markets, which ensures firms to provide appropriate offers and yields greater avenues (Johnes and Davies, 2014). In addition, (Braganz, 2013) reported that innovative marketing aims at increasing product consumption and has a positive influence on firm sales. Furthermore, continuous work process innovation was regarded as the most important action for improving the short-term profitability (Johnes, & Davies, 2014). Braganz (2013) also reported that an incremental strategy is the major driving force behind any improvement effort. Apparently, incremental innovation leads to the accumulation of day-by-day improvements and is the backbone of organizational performance.

5.3.3 Product Development Strategies Employed to Address Underwriting Profitability

The findings indicated that the product mix strategy offers competitive pricing for profitable channels. Similar findings have been established in past studies, for instance Harla (2003) sought to establish if product differentiation provided competitive advantage for a printing paper companies. The motivation for this thesis emerged from unsolved problems encountered when the author worked in two product differentiation projects at two different paper mills in Finland in the 1980's and 2013's. The research findings indicate that the role of initiator in this process is gradually moving from the paper producer towards the customer. The findings of the research also indicate that value-based pricing should be considered for differentiated printing papers as an alternative to traditional costbased pricing. Kampire (2012) paper was a survey that sought to establish the competitive forces in the Rwandan market that affected the manner in which insurance business was conducted. It also sought to find out the competitive strategies the insurance companies in Rwanda adopted in face of the various forces of competition. The research was a survey that was to include all the insurance companies in Rwanda. According to the results the most felt forces were; Price wars with competitors, High costs of customers switching from a competitor to your companies, Wider branch networks of competitors.

The study established that firms have customised Product scope design; benefits, terms, limits to suit the various market needs. Camison and Lopez (2010) also state that product innovation not only acts as a means of improving and safeguarding quality but also for cost saving. It is further lauded for retaining and growing the competitive position of a firm, as well as retaining a strong market presence. Products that are constantly improved are particularly important for long term business growth and performance (Bayus, Erickson & Jacobson, 2003). Product innovation is prevalent among new entrants in any industry as it has been used to boost their popularity in the market in a surprising short time (Hult et al., 2004). It is used as a business strategy for any business trying to acquire a larger market share too as product innovations are believed to attract diverse customers with varied needs (Oke et al., 2007).

Majority also agreed that the firm have segmented the market into different market segments. In the modern world of hyper competition, firms do not only focus on product innovation (Oke et al., 2007). They also explore process innovation to integrate improvements, service delivery as well as reduce cost to consumers (Danneels, 2000). Process innovation does not take place in a casual and offhand manner, but instead, includes the pressure of day to day business, vision creation, understanding the existing process and designing a new process. Equally, process innovation is a new approach of improving the organization's performance through incremental improvements rather than radical changes (Hippel, 2005). In most cases, the process innovation perspective embraces the top-down approach as well as the employee-based models. Top-down models have always been noted to be the mainstay of breakthrough innovation. Similarly, employee participation secures the employee commitment thereby, improving their performance (Rao, 2008).

It was also revealed that clients enjoy value add and differentiated services from partners e.g. call centers, fitness partners, towing services, first aid providers. Gluck (2012) adds that to enable constant growth companies should master the process of a product launch through introducing new competitive products into the market. Product launches help increasing sales revenue and expanding the customer base. By introducing new products a company can also target new groups of customers. The launch of new products can also influence the company expansion and new internal investments. Continuous research and planning are necessary if a company wants to achieve a successful product launch. During

this process all the employees of the company are involved, from the R&D to the Sales and Marketing team. (Gluck, 2012). To be successful and attract the customer attention, the new product must fulfil their needs and maintain the brand promise.

5.4 Conclusion

5.4.1 Underwriting Strategies Employed to Address Underwriting Profitability

Having the right technical skill is very essential to ensure underwriting profitability, in addition, the pricing strategies employed are very vital in determining the profitability levels enjoyed by a firm. To minimize risk associated with underwriting, firms use risk verification and inspection in order to improve underwriting results. In the sector utilization of risk modelling as a risk management strategy yields higher premiums for the insurance firms thus enable the underwriter to comfortably cover their claims when they arise. Strategic partnership and relationship management is highly encouraged and this could be attributed to motivating gaining of complement resources and capabilities and that the strategic partnership thus contribute towards organizational performance of the insurance firms in Kenya. overall profitability of the firm is affected by the choice of Portfolio management and underwriting governance.

5.4.2 Claim Strategies Employed to Address Underwriting Profitability

Fraud detection is a challenge in the sector and urgent action needs to be taken by the Government and its agencies such as IRA and IFIU as well as individual insurance providers and their associations if there is an intention to improve underwriting profitability. Companies with strong technology-enabled innovation strategies have a higher chance of securing competitive advantage and thus creating a superior shareholder value. Thus insurance firms seek to adopt digitalization of technologies such as telematics and IT processes as a measure of improving underwriting profitability.

5.4.3 Product Development Strategies Employed to Address Underwriting Profitability

Product mix strategy offers competitive pricing for profitable channels and there are customised Product scope design; benefits, terms, limits to suit the various market needs. The insurance firms also practice competitive product Pricing Strategies for its client, and most firms have segmented the market into different market segments and ensures the product Distribution Channels reach all the clients. As a result, clients enjoy value add

and differentiated services from other partners e.g. call centers, fitness partners, towing services, first aid providers.

5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Underwriting Strategies Employed to Address Underwriting Profitability

Insurance firms must ensure that the underwriting staff possess the right technical skill set to ensure prudent profitable underwriting. There is also a need for the firms to undertake strategic partnership and relationship management aligned to cost management. Firms should also seek to have underwriting governance, processes and controls matrixes that and risk surveys and experience adjustments hence significantly improve account profitability performance. It is also important for insurance companies to focus on risk on-boarding i.e. risk enrollment checks /kyc prudence in efforts to improve underwriting profitability and continuously measures underwriting results as a key performance indicator (KPI) in order to improve performance.

5.5.1.2 Claim Strategies Employed to Address Underwriting Profitability

More emphasis should be put on fraud detection and investigation as a measure of improving underwriting profitability. There is a need to adopt digitalization of technologies, and there is also a need for consumer/members education programs, this will ensure the consumers better understand their role in the insurance contracts. It is also vital for the firm to have technical claims staff in order to guarantee efficiency to the clients.

5.5.1.3 Product Development Strategies Employed to Address Underwriting Profitability

Product mix strategy offers competitive pricing for profitable channels and should therefore be highly encouraged. The firm should also seek to establish wider Product scope design; benefits, terms, limits to suit the various market needs in the sector. In order to guarantee successful products, a thorough Market Research (Research driven product design) should be undertaken to establish customer needs. The firm also need to create more awareness in the Product Service Models through their digital platforms.

5.5.2 Recommendation for Further Research

For further study, a similar research needs to be done in other insurance firms in order to be able to generalize the findings. In addition, there could also be a study to establish what other factors influence underwriting profitability. The researcher also recommends that more studies ought to be done to determine the effectiveness of underwriting strategies, claims strategies and product development strategies on the performance of insurance companies in Kenya.

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APPENDIX I: QUESTIONNAIRE
PART A: DEMOGRAPHIC INFORMATION

Tick the appropriate response from the alternatives provided.

This study is a requirement for the partial fulfillment of the degree of master in business administration (MBA).The purpose of the study is to research on the factors underwriting profitability in insurance companies using the case of general insurance companies in Kenya. All the information collected will be treated as private and confidential and will only be used for this research. Your assistance in completion of this questionnaire is highly appreciated.

1. What is your position in the company?

- | | |
|-------------------------------------|--------------------------|
| Business analyst | <input type="checkbox"/> |
| Business development manager | <input type="checkbox"/> |
| Chief Executive Officer | <input type="checkbox"/> |
| Claims managers | <input type="checkbox"/> |
| Commercial Executive | <input type="checkbox"/> |
| Finance managers | <input type="checkbox"/> |
| IT Applications Manager | <input type="checkbox"/> |
| Marketing manager | <input type="checkbox"/> |
| Salvage Administrator | <input type="checkbox"/> |
| Senior Underwriter | <input type="checkbox"/> |
| Underwriting | <input type="checkbox"/> |
| Underwriting or Reinsurance manager | <input type="checkbox"/> |

2. What is your level of education?

- I. Diploma
- ii. Graduate
- iii. Post Graduate

3. Indicate the period of time you have been working for your insurance company.

- 1-3 years 4-6 years 7--10 years Above 10 years

4. How long in years has your insurance company been in operations?

- 1-3 years 4-6 years 7--10 years above 10 years

PART B: THE EFFECTS OF UNDERWRITING STRATEGIES ON UNDERWRITING PROFITABILITY.

Indicate the effects of underwriting strategies on underwriting profitability by use of scale of 1-5 where (1) strongly agree (2) agree (3) neutral (4) disagree (5) strongly disagree.

Variable	1	2	3	4	5
A1: It is critical that the underwriting staff possess the right technical skill set to ensure prudent profitable underwriting.					
A2: Insurance firms utilise pricing strategies and guidelines to increase profitability.					
A3: The risk assessments methods i.e. Risk verification and inspection used have helped improve underwriting results.					
A4: Risk profiling, rating and segmentation is critical for underwriting profitability.					
A5: Strategic partnership and relationship management aligned to cost management contributes to underwriting profitability.					
A6: The service provider management plays an important role in supporting underwriting profitability					
A7: Portfolio management is key to improve underwriting profitability.					
A8: Underwriting governance, processes and controls matrixes are necessary in an organisation that is keen in improving underwriting profitability					
A9: The aspects of risk surveys and experience adjustments plays a significant role in improving account profitability performance					
A10. It is important for insurance companies to focus on risk on-boarding i.e. risk enrollment checks /kyc prudence in efforts to improve underwriting profitability					
A11: The firm measures underwriting results as a key performance indicator (KPI)					

PART C: THE CLAIMS STRATEGIES AND UNDERWRITING PROFITABILITY

Indicate the effects of the claims strategies on underwriting profitability by use of scale of 1-5 where (1) strongly agree (2) agree (3) neutral (4) disagree (5) strongly disagree.

Variable	1	2	3	4	5
B1: The firm focuses on fraud detection and investigation as a measure of improving underwriting profitability					
B2: Insurance companies should adopt digitalization of technologies such as telematics and IT processes as a measure of improving underwriting profitability					
B3: Incentives such as 'no claims discounts in motor' and health insurance wellness points and incentives shapes claimants behaviours thus improve underwriting profitability					
B4: Firms should offer consumer/members education programs					
B5: The institution has benefited from quick payment turn around and operations efficiencies					
B6: It is necessary for a firm to have technical claims staff i.e. Assessors and adjustors					

PART D: PRODUCT DEVELOPMENT STRATEGIES AND UNDERWRITING PROFITABILITY.

Indicate the effects of the product develop strategies on underwriting profitability by use of scale of 1-5 where (1) strongly agree (2) agree (3) neutral (4) disagree (5) strongly disagree.

Variable	1	2	3	4	5
C1: Our Product Mix Strategy offers competitive pricing for profitable channels					
C2: The firm have customised our Product scope design; benefits, terms, limits to suit the various market needs					
C3: The firm practice competitive product Pricing Strategies for our clients					
C4: The firm have segmented the market into different market segments					
C5: The firm undertakes a thorough Market Research (Research driven product design) to establish customer needs					
C6: The firm ensures the product Distribution Channels reach all the clients.					
C7: The firm has an efficient Product Service Models through its digital platforms					

C8. The firm offers Product Value Adds; like car insurance with home insurance					
C9: The firm ensures Product Simplicity through installment premiums, online service					
C10. Our clients enjoy value add and differentiated services from our partners e.g. call centers, fitness partners, towing services, first aid providers					

PART D: UNDERWRITING PROFITABILITY.

Indicate the effects of the statements on underwriting profitability by use of scale of 1-5 where (1) strongly agree (2) agree (3) neutral (4) disagree (5) strongly disagree.

Variable	1	2	3	4	5
E1: Customers are informed of the insurance claim process					
E2: Claims are resolved in a timely manner					
E3: Intermediaries plays an important role in claim process					
E4: Working with agents make the claim process easy					