FACTORS AFFECTING THE GROWTH OF INSURANCE BROKERAGE FIRMS IN KENYA: A SURVEY OF INSURANCE BROKERAGE FIRMS IN NAIROBI

Jane W. Gitau.
Jomo Kenyatta University of Agriculture and Technology KENYA.

Dr. Kenneth L. Wanjau.
Jomo Kenyatta University of Agriculture and Technology KENYA


ABSTRACT

Insurance is a complex, multi-dimensional product where the brokers play a critical role as market markers. Prior to seeking insurers to underwrite the risk, the broker works with the client to identify coverage needs and assist in designing a risk management programme. The lack of growth witnessed by most of insurance brokerage firms can be attributable to the challenges resulting from information technology, staff competence and accessibility to finance.

Introduction

Insurance plays an important role in any economy by covering economic and financial risk arising out of certain events. It employs licensed professionals, pays taxes, owns municipal bonds and serves people in their times of greatest need (Hodgin, 1988). In Kenya the concept of insurance was first introduced during the time of the British colonial rule when they used to
insure their insurable interest through Insurance Brokers on behalf of foreign insurance companies based in Britain. The role of insurance brokers in Kenya is recognized by the Insurance Act Cap 487 (RoK, 2010). The eleventh schedule of the Act recognized the commission payable to the broker under general business class as 25% of the premium. The insurance industry comprising 44 insurance companies recorded gross written premium of Kshs. 79.1 billion 2010 compared to Kshs. 64.47 billion 2009, representing an increase of 22.7%. Gross earned premium increased by 17.7% to stand at Kshs. 63.44 billion in 2010 compared to Kshs. 53.92 billion in 2009. More growth is projected in future due to the ongoing improvement in the regulatory environment, the review of the Insurance Act, product development and innovation that are currently being experienced in the industry (AKI, 2010).

Problem Statement

According to Dyer (2000), a competitive insurance sector, able to provide a wide range of risk management tools, will bring good consumer outcomes. Conwell, Leslie Jackson Conwell, (2002) contended that insurance was clearly of great advantage and importance in that insurance, like banking, promoted savings. According to Reagan (2001), the insured person got loans against the security of insurance policy from insurance company or from banks. Insurance brokerage firms bought and sold insurance services on behalf of both the insured and the insurer. Until the middle of the 1970s those involved in the selling and advising of insurance were thought of as being either insurance agents or insurance brokers. (Hodgin, 1988). The Revised Edition of the Insurance Act Chapter 487 of 2010 defines an insurance broker as an intermediary concerned with the placing of insurance business with an insurer or reinsurer for the expectation
of payment by way of brokerage fee and or commission. The advantage of arranging insurance through an insurance broker was obvious. Over the last few years the growth in the number of the insurance brokers in Kenya has been insignificant compared to the insurance agents. There were 149,156 and 158 registered insurance brokers against 3355, 3644 and 3788 registered insurance agents in year 2008, 2009 and 2010 respectively (IRA, 2009). The implication of the insignificant growth is that the premium incomes to the insurance industry for the regular premium products will stagnate causing the insurance penetration rate to remain low (AKI, 2010).

Njeru (2010) carried out a study on effects of reward system on performance of the brokerage firms in Kenya focusing on the availability of resources as a contributor to the performance of the brokerage firms. A study by Ngiana (2010) to determine the factors that influence the slow revenue growth in the insurance brokerage firms in Kenya concluded that information technology, customer satisfaction, benefits, laws and regulations influence revenue growth of insurance brokerage firms. With the growing role that insurance brokers play globally, this research becomes necessary to help add to the existing knowledge on the factors that influence the growth of insurance with an aim of determining what is needed to help brokerage firms grow.

**Specific Objectives**

The specific objectives for the study were:

1. To explore whether technology influences the growth of insurance brokerage firms in Nairobi
2. To investigate whether the staff competencies influence growth of insurance brokerage firms in Nairobi

3. To establish how accessibility to finance influences the growth of insurance brokerage firms in Nairobi.

**Significance and Scope of Study**

Insurance industry plays a major role in the financial sector of the economy. This way they will be able to support the sector and not allow it to become irrelevant. The general public who are insured and future insurance purchasers will see the benefits of using the brokerage firms for insurance business placement. For the academia the study will become a source of reference by researchers when similar studies are conducted in the near future, while the policy makers will use the study to come up with regulations that will enhance the growth of the insurance broking sector. The study was conducted amongst the 131 insurance brokers who are based in Nairobi who represent 83% of the 158 registered brokers countrywide under the Insurance Act as at 2010 (IRA, 2010).

**Conceptual Framework**

**Technology**

Cooper, 2000) had studied a few factors that contributed to the revenue growth of firms in the insurance sector in relation to technology. Of particular importance was technology strategy, which represented the pattern of decisions, the position relative to competitors and the perspective from which management made decisions regarding technological activities,
equipment, materials and knowledge (Herman, 1998). Schilling and Hill (1998) noted that the purpose of technology strategy was to identify, develop, and nurture those technologies that were crucial for the firm’s long run competitive position. Lack of technically knowledgeable employees might hinder technology adoption especially if the entrepreneur believes that technology is a reserve of specialist staff. Technology strategy was found by many researchers as a way to improve competitiveness. Failure to develop and integrate technology strategy and business strategy is a major contributing factor to the decline of firm’s competitiveness. Many literatures also indicated that technology strategy played an important role in determining firm performance in technology-driven industries such as industrial automation company, (Mitchell, 1992).

A good technology strategy would never achieve success without effective resource deployment in embracing the strategy. Numerous literatures emphasized the important role of resources in determining performance of technology intensive industries. The obvious determinants of new technology adoption are the benefits derived by the user and the costs of adoption. A stable and secure customer base is an important factor for technology adoption (Hall & Khan, 2002).

**Human and Financial Resources**

According to Buttrick, (2009) human resource development improves efficiency because employees gain knowledge and skills required for doing a particular job in a structured manner. Human resource development is key to an organization’s operational success. Financial constraint however, remains a major challenge facing the insurance brokerage firms in Kenya. In the presence of external financing constraints, firms rely more on internal funds to finance
growth. The effect of internal financing on firm growth decreases with an increase in the firm's access to an external bank credit facility. As the external financing constraint is alleviated, the firm relies less on internal funds and switches to external financing as the primary source of financing for its growth, a real effect of financial structure on growth via the channel of an external financing constraint.

Empirical Review and Critique of Existing Literature

Bharadwaj, Varadarajan and Fahy (1993) stated that lack of growth witnessed by most of insurance brokerage firms can be attributable to the challenges resulting from information technology, staff competence and accessibility to finance. He suggests that insurance brokerage firms should train employees to facilitate the general growth of the firm (Bharadwaj, et al., 1993) The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with brokerage firms.

Research Gaps

There have been a number of valuable studies of factors affecting insurance brokerage firms (Maidique and Patch, 1978; The only study that is close to the current study is Wanjohi and Mugure (2008) carried out a study on the factors affecting brokerage firms’ growth in Kenya and concluded that there are various financial challenges that face the firms. This study aim at filling the existing gap by investing into the factors that affects the growth of insurance brokerage firms with specific reference to those operating in Nairobi.
Research Design and Methodology

This study adopted a descriptive research design. The target population for this study comprised the insurance brokerage firms operating in Nairobi as per the (IRA, 2010) register. The target population was the Broking Managers of the 131 insurance brokerage firms. To ensure that each broker in the register had an equal and independent chance of selection, a simple random sampling technique was used. The choice of data collection instrument is often very crucial to the success of a research and thus when determining an appropriate data collection method, one has to take into account the complexity of the topic, response rate, time and the targeted population. Secondary data means data that is already collected and analyzed by someone else (Kothari, 2004). Such data was collected from various recognized bodies such as Association of Insurance Brokers in Kenya, IIK, AKI and the Insurance Regulatory Authority (IRA).Documentary secondary data will include;

Research Findings and Discussion

Technology and Firms Growth

The research found out that technology facilitates the transfer and sharing of data with underwriters most of the times, the firms offered on-job training for the employees on new development in technology application and that lack of technically knowledgeable employees might hinder technology adoption Reynolds et al (1994).
Staff Competence on Growth of Firms

The research further found out that training influences employee's competence and that the training approach adopted by the firms provided a conducive environment and that the employees were willing to demonstrate their capability (Kwamboka, 2009) and the outcome was enhanced employee competence in serving their customers.

Access to Finance on Growth of Firms

In addition, the research found out access to finance was a key problem to the firm (McMahon, 2001). The study confirmed that majority of the brokerage firms relied on external financing from banks or other financial institutions. In addition, the respondents indicated that lack of appropriate structure for dealing with brokerage firms in financial institutions and undeveloped capital market forces affect the growth of the firm.

Growth Indicators Last Five Years

This is drawn from the positive results posted against the indicators in terms of revenue, profitability, customer base and number of employees. Growth in profitability was highest at an average of 15.8%.

Regression Analysis

The regression analysis shows a strong relationship $R=0.665$ and $R^2=0.0442$ which means that only 44.2% of the factors influencing growth of the brokerage firms can be explained by all the predictor variables jointly. A further test on the beta coefficients of the resulting model, the
coefficient $\beta_1=1.725$, $\beta_2=0.651$ and $\beta_3=0.662$ are all significantly greater than 0 with p values 0.002, 0.004 and 0.009 respectively which are all less than p=0.05.

The model holds as;

$$(Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon) \text{: Equation 1}$$

whereby

$Y =$ factors affecting the growth of insurance brokerage firm

$X_1 = $ Effects of technology on firm growth

$X_2 = $ Staff competence on growth of firms

$X_3 = $ Access of finance on growth of firms

$\varepsilon$ representing the error term.

After substituting the beta values in to equation 1;

$$Y = 2.189 + 1.725X_1 + 0.651X_2 + 0.622X_3 \text{: Equation 2}$$

Bechikh, Landry and Amara (2006) confirm that technological innovation is unavoidable for firms that want to grow and maintain a competitive advantage and or gain entry into new markets. Danneels and Kleinschmidt (2001) further emphasize that product innovation requires the firm to have competencies relating to technology thus enabling the firm to make the product and relating to customers through service.

Staff skills and competencies constitute a vital asset for business growth. Firms that have implemented a training programme are more likely to achieve a faster growth that those that have just introduced an innovation (Baldwin, 1999). This confirm that training is complimentary to an innovation strategy.
Constraints to access affordable finance is associated with lower growth of firms especially SME’s.

Conclusion

The study concludes that technology facilitates the transfer and sharing of data with underwriters and that the company offered on-job training for the employees on new development in technology application. Firms encounter problems related to accessing credit as a result of restrictive lending offered by commercial banks and that the situation is aggravated by lack of appropriate structure for dealing with brokerage firms by financial institutions and the underdeveloped capital markets.

Recommendations

Having confirmed that technology plays a vital role in the growth of firms through increased efficiency by sharing of data between brokers and underwriters for maintenance of stable and secure customer base and that technically knowledgeable employees are a requisite to technology adoption, it is recommended firms should hire technically knowledgeable employees. Given that staff competence is valuable for customer service and handling of complex commercial insurance policies for the overall growth of the firms, it is recommended that firms should continuously offer training to its employees in order to influence and boost their competence.

Access to finance is an accepted catalyst to growth of enterprises and that availability of financial resources has a positive effect on growth of firms through increased sales volumes and employment creation (Musco & Schiavo, 2008).
References


