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Does the Price of Life Insurance Influence the Uptake of Life Insurance in Kenya?

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Abstract:*Life insurance plays an important role in individuals and families financing by providing a hedge against loss of income following the loss of the wage earner. However, data from Association of Kenya Insurers (AKI), reports that in life insurance in Kenya uptake is at 6% leaving a majority of Kenyans uninsured and vulnerable to financial risk and loss, further life insurance penetration in 2014 had dropped to 1.87% from 2.28% in 2013. The purpose of this study was to determinewhether price of life insurance influences the uptake of life insurance in Kenya. This study was based on adaptation level theory.Stratified random sampling technique was used to determine the respondents from a sample of 100. A close ended questionnaire was used to collect data from the respondents. The data was analyzed in two levels; descriptive and inferential data analysis. In descriptive data analysis mean scores were calculated.The overall mean of the objective was 3.56 which indicates that most responses were 4. This showed that most respondents agreed that the price of life insurance influences uptake of life insurance in Kenya. Inferential data analysis involved correlation, regression and Analysis of Variance (ANOVA). The study indicated a very strong negative correlation (0.798) between the price and uptake of insurance products in Kenya. The R square was 0.637 which indicated that the price explain 63.7% of the variation in the uptake of insurance products in Kenya. The rest 46.3% can only be explained by other factors other than the price. The null hypothesis that the price of life insurance does not statistically significantly influence the uptake of life insurance products in Kenya was rejected. The study revealed that price of life insurance in Kenya. It recommends that insurance companies should consider lowering the cost of premiums, be creativeand be intensive in awareness of life insurance, access the needs of life insurance consumers before they set the price of the premiums, should develop a packaged life insurance product that has flexible payment schedule.Life Insurance companies should embrace online insurance and convince their customers to use online insurance and the government should have more tax incentives to life insurance companies.*

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I. Background Information

Insurance has been with us since time immemorial. Early practice was reported in Europe for over one thousand years with the earliest being marine insurance (Gitau, 2013).However, insurance was unknown in Kenya until the early part of the 20th century. It is the early European settlers who introduced insurance in Kenya. In 1904, the London and Lancashire Insurance Company appointed agents for fire business in Nairobi (Wachira, 2008). In 1922, Royal Exchange Assurance opened a branch office in Kenya and was followed by the Commercial Union in 1929 (Wachira,2008).Until the late 1970s, the Insurance industry in Kenya operated in a rather stable environment. There was little demand for services, the products offered were standardized, government supervision was minimal and competition relatively low. However, following the issuance of the government directive in 1978 which required all foreign insurance companies to be incorporated in Kenya by 1980 and the introduction of the Insurance Act of 1986 chapter 487 of the laws of Kenya, the industry has since experienced tremendous challenges (Wachira, 2008).

Many insurance companies sprung up in the 1980s and many more companies were incorporated in the 1990s following the liberalization of the economy. This move has seen the number of registered insurance companies grow from 15 in 1978 to 39 in 2001 and more than 40 in 2012 this, together with the collapse of the giant state owned Kenya National Assurance in 1996 has intensified competition in the industry (Wachira, 2008).It is noticeable that the insurance customers are concentrated in the major towns and the products have remained very traditional in Kenya.

Despite the fact that insurance has been practiced for over a thousand years world over, it is still a fact that life insurance uptake is still very low, not only in Kenya but the world over.Statistics show that Global life insurance premiums shrank by 2.7% in 2011.Advanced markets contracted by 2.3%, with the sharpest decline observed in Western Europe (9.8%).The US market recorded moderate growth of 2.9%. Global non-life insurance premiums rose by 1.9% in 2011 (AKI, 2011). Insurance penetration is a global problem with developed markets like UK at about 11% and USA at about 8.6% (Swiss Re, Economic Research &Consulting, 2012).

Life insurance penetration in Sub Sahara Africa has remained low as the bulk of the population operates in the informal sector where income levels are low as well as irregular. South Africa has the highest penetration rate in the region at 11.6% driven by high life insurance product uptake. Namibia comes in second with overall penetration at 7.3% followed by Kenya with penetration at 3.03% (Association of Kenya Insurers, 2013).

The very low life insurance penetration in Kenya implies an inherent problem in the economy. According to AKI (2009 &2010) the insurance penetration in Kenya is 3.1% of the country's GDP and is low and not consistent with our aspiration to be a middle-income country by the year 2030.For us to get there, the contribution of insurance to the GDP has to get to at least 10%. Our figure of 3.1% is very low as compared to South Africa's 14 per cent and Malaysia's ten per cent (Awino, 2008). The low life insurance penetration level in Kenya is a reflection that a good majority of Kenyans have not taken any cover to protect themselves and their properties against risks. It implies that in the event of a calamity or an unpredictable bad event happening to them they stand exposed to major losses with no recourse of compensation. Kariuki (2007) noted that despite the insurance industry having so many players including 45 insurance companies their activities are yet to translate in to higher insurance penetration.

There are several factors that affect the penetration of life insurance in Kenya. Yaari(2009)attributes the low penetration of insurance in third world countries like Kenya to lack of disposable income. In a country where many people live below poverty line, it is difficult for people to think about future security. According to UNECA (2016) report Kenya had the highest level of income inequality in Eastern Africa with a Gini - coefficient at 0.45 in 2005/2006 this implies that for many life would simply be about basic needs; food, shelter, clothing and basic education.Otieno(2012) attributes it to the high prices which the low income earner found insurance cover to be very expensive and unaffordable. The Price of life insurance is vital as it determines how lifeinsurance will be embraced. The prices of life insurance premiums are beyond the reach of majority of Kenyans. Therefore, this study hypothesizes that; H_{01}:Price of life insurance does not statisticallysignificant influence uptake of life insurance products in Kenya

II. Literature Review

Price evaluation is an important input to consumers decisions in regard to what, when, where and how much to buy (Gupta, 1988). One major approach to understand how consumers arrive at price evaluation involve the concept of reference price Blattberg, Briesch and Fox (1995) which can be defined as the price against which buyers compare the offered price of a product or service (Monroe, 1971). Such comparison presumably dictates whether a price is deemed too high or too low. The most widely cited explanation of reference price and price judgment is based on Helson's 1964 adaptation level theory. In order to gain insight into the consumers' price perception processes a particular reference is made to adaption level theory as postulated by the adaptation-level theoryHelsonin 1964. Adaptation-level theory proposes that perceptions of new stimuli are formed relatively to a standard or "adaptation level." The adaptation level is determined by previous and current stimuli to which a person has been exposed. It thus changes over time as a person is exposed to new stimuli. The adaptation level for judging the price of a particular item is called the "reference price." A consumer's reference price might be based on previous prices paid for the item or similar items, previous prices observed, prices for comparable items available at the time of purchase. Researchers have thought of the reference price as an expected price. If the discrepancy is small, it may be seen as a slight aberration. If the discrepancy is large, the consumer might see the observed price as an exception.

Winer (1986) investigated the nature of reference price effects on brand choice through a linear probability model whereby the probability of purchase for a brand was a function of the observed price and the difference between the observed price and reference price. He found that the model predicted probability of purchase better than standard demand models that incorporated only observed brand prices. In another laboratory experiment, Kalwani, Yim, Rinneand Sugita (1990) demonstrated that customer brand choice and judgments were mediated through customers' price expectations for a brand (reference price). They showed that consumers' price expectations were formed based on past prices of the brand, customer characteristics and situational factors. According to Winer (1986), the consumer price process can be depicted in a form of a diagram as shown below;

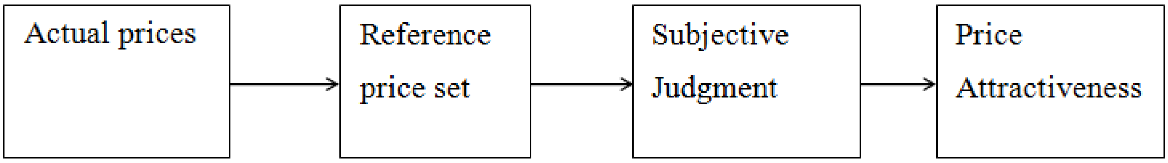

Figure 1: Consumer Price Evaluation Process(Winer, 1986)

In developed countriessuch as the United States of America life insurance is on its place as most American families rely on life insurance to provide financial protection to their dependents and many of them have cash value life insurance in their financial asset portfolios. Sixty-two percent of Americans owned some type of life insurance in 2004 (LIMRA, 2005). By the end of 2006, total life insurance coverage in the United States reached $19.1 trillion, according to American Council of Life Insurers. In developing countries such as Ukraine, the insurance culture of Ukrainian society is significantly less mature compared to the western developed countries, where the life insurance business, for instance, substantially increased its importance as a financial intermediary over the last 40 years and became one of the leading sources of investment in the capital market. Many developing countries, however, have small life insurance sector, and Ukraine is not an exception. While the Ukrainian life insurance market shows the highest premiums' growth rate among other kinds of insurance (similar to other developing countries of the region) compared to western European countries (40.3% versus 4.4% respectively in 2006), yet the share of this sphere of insurance reached only 2.3% of total insurance premiums in Ukraine in 2005 (for comparison: 10.3% in Latvia, 38.8% in Czech Republic, 62.2% - average for EU 15 most developed economies) (Nesterova, 2008).

In Africa, according to Swiss Re (2009) South Africa registered a density of US $ 476.5 and life insurance penetration of 7.58%, as compared to Morocco which registered a density of US $ 12.0 and life insurance penetration of 2.05%, and Egypt which registered a density of US $ 2.7 and a life insurance penetration of 0.22%. The penetration of general insurance was 1.9%, while that of life insurance was 0.94% of GDP, in Kenya in 2009 and 1.05% of GDP in 2010 (AKI, Insurance Industry Statistics, 2010).

Life insurance industry in Kenya is regulated by the Insurance Regulatory Authority (IRA). This is a statutory government agency established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya to regulate, supervise and develop the insurance industry. In terms of ethical and prudent business practices in the industry, this is largely overseen by the Association of Kenya Insurers (AKI). AKI is an umbrella body bringing all insurance companies in Kenya together. There are 13 players in Kenya's life insurance industry. According to IRA (2012) life insurance report, the total premium income and contributions from all the classes of life insurance business was Kshs 30.93 billion in the year 2011 compared to Kshs 26.71 billion in 2010, representing a growth of 15.8%. The contribution of life insurance sector to Kenya's GDP dropped to 1.02% in 2011 compared 1.05% in 2010. This means that other sectors of the economy grew faster than life insurance. Compared to the other sectors, life insurance contribution to the economy is almost negligible (AKI, Insurance Industry Statistics Report , 2011).

The performance of the life insurance industry in Kenya seems to be poor yet the industry's importance of the insurance sector cannot be underrated (Etemesi, 2004). Insurance provides employment opportunities through its marketing and the distribution networks such as direct insurance companies, insurance brokers, insurance agents, insurance investigators, insurance surveyors, loss adjusters, loss assessors and risk managers (Ogutu, 2004).

Etemisi (2004)points out that life insurance industry also contributes to the Gross Domestic Product (GDP) of this country, besides insurance being an important source of funds through its pooling system.Masinga (2005) points out that a thriving insurance sector is of vital importance to every modern economy. First because it encourages savings, secondly it provides a safety net to business enterprises and productive individuals. Finally and perhaps most importantly it generates long-term investment funds for economic development. This is in addition to its basic role of providing protection to the insured against financial loss as well as being a source of security.

The most talked about topics in the insurance industry is the low penetration and spread of the business. Lack of trust in the industry, limited knowledge on its products, its limited reach to the informal sector; the perception that insurance is expensive, and the fear of not being able to service it continuously, are some of the factors hindering penetration of the service. Insufficient tax breaks offered to individuals and corporate, lack of tax incentives to life insurers and the absence of active government involvement in mitigating calamities, also play a part in reducing its spread.However, with coordinated efforts, the Kenyan insurance industry can grow to 5% of the GDP per year(KPMG, Kenya insurance survey, 2009).

Prices of Life Insurance Products

Price is considered along with other marketing mix variables before the marketing program is set (Kotler,2003). Pricing of life insurance constitutes a combination of actuarial value and loading factor. Actuarial value is the expected payoff from an insurance policy (Hofmann, 2009). The loading factor of a policy premium includes a safety buffer, taxes, and all the administrative costs attributed to providing an insurance cover (Vaté&Dror, 2002).

In Churchill (2006) study (as cited in Kenya Insurer, 2009) low income persons live in risky environments, vulnerable to numerous perils, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and calamities of both natural and manmade. These poor persons are ignored by mainstream commercial and social insurance schemes and have not had access to appropriate products. According to the United Nations Development Program (UNDP) – any person who earns less than $2 is considered as a person of low- income. Although poor households often have informal means to manage risks, informal strategies generally provide insufficient protection against a series of perils (Churchill, 2006). According to Geron (2006) study (as cited in Kenya Insurer, 2009), the only alternative is to purchase a type of insurance that can mitigate these risks. These risks should be mitigated in ways that are affordable and appropriate to low-income. Probably, this is one way of increasing the penetration of life insurance (Kenya Insurer, 2009).

The relationship between price of insurance and life insurance demand has been studied in the past (Mantis & Farmer, 1969; Depamphills, 1975; Outreville, 1990; Outreville, 1996; Brown & Kim, 1993;Ward &Zurbruegg, 2002; Hwang & Greenford, 2005; Savvides, 2006; Sen&Madheswaran, 2007). However, the indicator of price of life insurance is not available in most of the studies because it is difficult to determine the price of insurance with the various customised nature of policies (Outreville, 1996; Ward &Zurbruegg, 2002; Hwang &Geeenford, 2005; Savvides, 2006).The findings of these studies indicate that price of insurance is positively related to life insurance demand (Mantis & Farmer, 1969; Depamphills, 1975; Outreville, 1996; Ward &Zurbruegg, 2002); the price of insurance variable is positive and statistically insignificant in the fixed effects model and is found negatively and statistically insignificant in the pooled cross-sectional model (Hwang & Greenford, 2005).This is because the longer life expectancy which is used to proxy the price of insurance has a positive effect on life insurance demand by resulting in a reduction in the price of insurance which leads the people to use life insurance (Outreville, 1996); the researcher suggested that the lower the price of insurance, it is expected to encourage more life insurance demand (Hwang & Greenford, 2005).Other empirical results showed that price of insurance are negatively related to life insurance demand (Outreville, 1990; Brown & Kim, 1993); whereas another study concluded that price situation does not affect life insurance demand at all (Sen&Madheswaran, 2007).

Studies have been carried out on uptake of life insurance. Ahmad, Juliana, Mohd and Wan (2012)carried out their study in Malaysia. They found that price of life insurance was influenced by demand of Family Takaful demand. They also found that as income progressed to higher levels, substitutes for individual life insurance became available. However, they failed to show how sales promotion affects the demand for life insurance. Brown and Kim (1993) in their research on life insurance found that the cost of insurance has an impact on demand of life insurance. They found a negative relationship between the cost of insurance and the demand of life insurance. However, they did not show how income and sales promotion impact on the demand of life insurance.

In Kenya, Otieno(2012)in his study found that insurance premiums were very expensive for the low income earners. The low income earner found insurance cover to be very expensive and unaffordable and that prospective customers were scared by the high cost of insurance premiums. Another study by According to Kamau(2013) in his study found out that low insurance penetration in Kenya can be explained by the high cost of insurance. Thiswas supported by Dowd (2007) and Tenkorang (2001)who noted that there is need for insurers to ensure flexibility and convenience in the payment of insurance premiums so as to attract potential customers. However,they failed to show how sales promotion and income of potential customers influence penetration of life insurance.Makau (2008) established that affordability and pricing was an important factor in enhancing growth of life insurance business. He revealed that life insurance products should be fairly and competitively priced to ensure that the customers achieve the highest value. He also established that sales promotion of life insurance business would lead to enhanced business for life insurance, but he failed to look at how income would affect growth of life insurance.

III. Methodology

The study applied a descriptive research design with a sample of 100 respondents who comprised of managers, customer care desks and financial advisors. To identify the respondents of the study a stratified random sampling technique was used. A closed ended questionnaire was used to collect data from the respondents. A drop and pick method was used where the questionnaires were left with the respondents and collected after two weeks. All the questionnaires were collected and hence a 100% response rate. Both descriptive and inferential data analysis methods were used to analyze the data. Descriptive Data analyze involved calculation of maximum, minimum, mean and standard deviations of scores. Inferential data analysis involved correlation, regression, ANOVA and hypothesis testing.

IV. Results and Discussion

The objective of the study was to investigate whether price of life insurance has an influence on uptake of the life insurance products in Nakuru town in Kenya. The objective was tested through seven (7) composite measures on a scaled questionnaire. The findings were presented in table which shows the frequencies and mean of the responses of the composite measures of price.

The respondents were requested to indicate whether cost of premiums affect the uptake of life insurance. A significant majority (62%) agreed that cost of premiums affect the uptake of life insurance, (8%) did not commit themselves while (28%) indicated that cost of premiums did not affect the uptake of life insurance. The question had a mean of 3.49 and this showed that most responses agreed that cost of premiums affect uptake of life insurance. The finding of this study is supported by Diamond (1992) who found that as the cost of life insurance increase the volumes of uptake of life insurance significantly decrease.

A significant majority of the respondents (73%) agreed that the high cost of insurance has an influence on uptake of life insurance. Seven per cent (7%) of the respondents did not commit themselves while (20%) indicated that high cost of insurance has no influence on uptake of life insurance. The responses had a mean of 3.70 indicating that most of the responses were 4. This implies that high cost of insurance has an influence on uptake of life insurance. This finding is congruent with findings of studies done by Hwang and Greenford (2005) who found out that the lower the price of insurance the higher the expectation of demand of life insurance.

When the respondents were asked to indicate whether perception of affordability of life insurance determine the uptake of life insurance a significant majority (59%) were in agreement while (20%) had no idea and (21%) of the respondents indicated that perception of affordability of life insurance did not determine the uptake of life insurance. The responses had a mean of 3.44 showing that there was an indifference situation. This finding is supported by study done by Makau (2013), which established that affordability and pricing are both important in enhancing growth of life insurance.

The respondents(59%) who had a significant majority held the view that in order to increase the uptake of life insurance companies need to reduce the premium rates, (11%) did not commit themselves and 21% held a negating view that in order to increase the uptake of life insurance companies do not need to reduce the premium rates. The responses had a mean of 3.26 thus indicates a 50-50 situation. This contradicts the study carried out by Mantis and Farmer (1968) which found that demand of life insurance is negatively correlated with its price. However, the study confirms the results of the study carried out by Sen and Madheswaran (2007) who found and concluded price situation does not affect demand for life insurance.

Majority of the respondents (57%) agreed that insurance companies set premiums rates of life insurance not having gained the insight of the perceptions and attitudes the consumers have on life insurance. Eleven per cent (11%) did not commit themselves, however, (32%) indicated that insurance companies set premiums rates of life insurance having gained insight on the perceptions and attitudes of consumers of life insurance. The responses had a mean of 3.22 this indicates an indifference. This was supported by studies done by SBO research (2010) who found out that affordability was found to be more of a perception than the reality due lack of communication on the actual cost of insurance policies.

A significant majority of the respondents (76%) agreed that most Kenyans consider life insurance to be a luxury and not a necessity. Four percent (4%) of the respondents did not commit themselves while (20%) failed to agree that most Kenyans consider life insurance to be a luxury. The responses had a mean 3.82 which is closer to 4. This indicated that most Kenyans consider life insurance to be a luxury and not a necessity. This corresponds to studies done by Otieno (2012) who found that low income earners majority of Kenyans found life insurance to be very expensive and not a necessity.

The respondents were requested to indicate whether insurance companies should come up with innovative tailor made life insurance products that have a low premium rate so as to increase uptake of life insurance. A significant majority (71%) were of the view that insurance companies should come up with innovative tailor made life insurance products that have a low premium rate so as to increase uptake of life insurance, (8%) of the respondents had no idea and (21%) did not agree. The responses had a mean 3.85 this shows that most responses were 4. This indicates that insurance companies should come up with innovative tailor made life insurance products that have a low premium rate so as to increase uptake of life insurance. This is supported by studies done by Geron (2009) who found out that insurance companies should find a way to mitigate their risks in ways that are affordable and appropriate to low income earners.

The overall mean of the objective was 3.56 which indicates most responses were 4. This shows that most respondents agree that price of life insurance influence uptake of life insurance in Nakuru, Kenya. This finding is consistent with studies done by Browne and Kim (1993) and Outreville (1996) which found that the higher the price the lower is the incentive to purchase life insurance products The results of the study are as shown in table 1 below;.

Table 1: Descriptive Statistics of Price of Life Insurance

Key 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree

Attribute	1 %	2 %	3 %	4 %	5 %	Likert Mean
Do you agree that cost of premiums affect the uptake of life insurance	8	20	8	43	21	3.49
Do you agree that high cost of insurance has an influence on uptake of life insurance	6	14	7	50	23	3.70
Do you agree that the perception of affordability is a key determinant that contribute to the uptake of life insurance	6	15	20	47	12	3.44
Do you agree that in order to increase the uptake of life insurance companies need to reduce the premium rates	18	12	11	48	11	3.26
Do you agree with the statement that insurance companies set the premiums of life insurance not having gained the insight to the perceptions and attitudes towards life insurance	12	20	11	44	13	3.22
Do you agree that most Kenyans consider life insurance to be a luxury and not a necessity	4	16	4	46	30	3.82
Do you agree that life insurance companies should come up with innovative tailor made life insurance product which have low insurance premiums in order to increase uptake	8	13	8	28	43	3.85
Overall Mean						**3.56**

A correlation coefficient statistics that describes the degree of linear association between price of life insurance and life insurance uptake was determined as shown in the table 2 below. It indicatesthat there is a negative relationship between price and uptake of life insurance in Nakuru, Kenya, -0.798. The results conform to a previous study done by Browne and Kim (1993) which determined that the cost per dollar of life insurance coverage is negatively related to life insurance consumption.Masese (2013) showed in his research that the higher the price, the lower is the incentive to purchase life insurance thus reducing consumption

Table 2: Correlation Analysis between Price and Uptake of Life Insurance

		Price of life insurance	Uptake of life insurance
Prices of Life Insurance	Pearson Correlation	1	-.798
	Sig. (2-tailed)		.000
	N	100	100
Uptake of Life Insurance	Pearson Correlation	-.798	1
	Sig (2- tailed)	.000	
	N	100	100

Correlation is significant at 0.01 level (2 – tailed)

The study obtained the model of price of life insurance against the uptake of life insurance and presented the results as shown in the table. The regression model in the table shows R and R^2 value representing the correlation.The variable returned significant coefficient to model a regression equation. The predictor variable had significant values to consider using them in a regression model. The coefficient of multiple determination R-square value was 0.637. This means that about 63.7% of variation of response variable which is uptake of life insurance can be explained by the price of Life Insurance. The rest 46.3% can be explained by other factors not in the model. The results of the study are as indicated in table 3 below;

Table 3: Model Summary of Price and Uptake of Life Insurance

Model	**R**	**R Square**	**Adjusted R Square**	**Std error of Estimation**
1	-0.798[a]	.637	.635	.28284

a. Predictors: (Constant), price

One way analysis of variance (ANOVA) whose results formed the basis for test of hypothesis was used to determine if price of life insurance products has any significant effect on uptake of life insurance.The null hypothesis to be tested was H_{01}:Price of life insurance does not statistically significantly influence uptake of life insurance products in Kenya. Null hypothesis was rejected because F = 352.097 had a p value = 0.00 which was less than < 0.05 as shown in table 4. The alternative hypothesis that price of life insurance statistically significantly influence uptake of life insurance in Kenya was accepted. The results are as indicated in table 4 below;

Table 4: ANOVA of Price of Life Insurance

Model	Sum of Squares	Df	Mean Squares	F	Sig
Regression	140.160	1	140.160	352.097	.000
Residue	7.840	98	.080		
Total	148.000	99			

a. Dependent Variable: uptake
b. Predictors: (Constant), price

V. Conclusion and Recommendation

The study noted that lifeinsurance companies set the prices of premiums not having gained insight of the affordability of cover. It was noted that while most Kenyans consider life insurance to be a luxury the high cost of life insurance cover also influenced the uptake of life insurance.Based on the findings the study concludes that prices of life insurance influences uptake of life insurance in Nakuru, Kenya

The study recommends, first, that life insurance companies should consider assessing the life insurance needs of customers before pricing the life insurance products. Secondly, life insurance companies should develop well packaged life insurance products that have flexible payments though mobile money platforms in order to reach low income earners. Thirdly, life Insurance companies should embrace online insurance and convince their customers move to the new and innovative way of conducting insurance. Online insurance has been proven to be more efficient and effective way of making insurance business convenient to both parties in areas of cost reduction and satisfaction of consumer needs. Finally, the government should come up with more tax incentives to motivate people to take up life insurance

VI. Recommendations for Further Studies

This study recommends that further study should be carried out on factors that influence uptake of banc assurance. Further research should be done on inflation, urbanization, dependency ratio, and interest rate capping and how they influence the uptake of life insurance.

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