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DISTRIBUTION MODELS AND PERFORMANCE OF PRIVATE HEALTH INSURANCE SECTOR IN KENYA

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Abstract

Purpose: Health insurance firms continue to compete for the same client base without registering any significant improvement in either penetration levels or performance. This study sought to establish the influence distribution models as a transient advantage on performance of private health insurance sector in Kenya.

Methodology: Descriptive survey design was adopted in the study targeting a population comprising managers, assistant managers and supervisors. Four respondents were drawn from each of the five departments, namely sales, strategy, finance, operations and customer service departments in the 19 private health insurance companies where data was collected from a sample of 308 out of the 380 that were targeted. The data were analyzed and both descriptive and inferential results obtained and interpreted.

Results: It was found that distribution models (β=-0.77, exp (B) =0.563, $p=0.036<0.05$) significantly predicted performance. Since the distribution models negatively predicted performance, it is recommended that these models be re-examined to determine their weaknesses with a view to improving them since as currently deployed, the distribution models have a negative impact on health insurance performance.

Contributions to theory, policy and practice: The study recommends the employment of multiple channels of distribution of insurance product rather than relying on traditional channels of agent/broker and bancassurance. Mobile applications and internet technology could be used to make access to insurance products more convenient to access, reaching potential customers where and when they can be found while at the same time cutting on the cost of availing these services. To be able to achieve this, there will be need to invest in R&D. It is then imperative that insurance companies must have budgets for R&D. New distribution avenues like Saccos should also be pursued. Distribution channels selected must be those that enable insurance companies to achieve their profitability and penetration objectives.

Key words: *Distribution model, Dynamic capabilities, Transient advantage, Health insurance, performance*.

1.0 INTRODUCTION

Health refers to top notch welfare and wellness of an individual including their mental, physical and social faculties and is not defined by the mere lack of illness or infirmity (World Health Organization, 2012). One of the key government agenda in Kenya amongst the big four agenda items is ensuring proper healthcare for the entire population through the Universal Health Coverage also famously known as UHC which is currently also a critical goal in the worldwide agenda. The Sustainable Development Goals (SDG's) aimed at transforming the world by 2030, have listed Health as one of the top 3 goals. In most nations, health care delivery and the functioning of the economy are considered a key political issue while in many other countries it is perceived as part of the national pride and status. The economic benefits of the health sector go far beyond the jobs it provides and the service it offers. The sector is critical to the wellbeing of the population and plays a key role in deciding on the level of productivity in the nation hence the saying that a healthy nation is a wealthy nation.

Distribution models are the methods by which insurance companies reach the insured and potential insured and it could be either directly, through their sales force, agency system, or through insurance brokers (Cappiello, 2018). From the DCV perspective, some of the transient advantages capabilities that are crucial for an organization include the ability to identify opportunities to innovate and launch products as well as ramping up through agile distribution models. DCV requires that a company should be able to efficiently make use of the short-term opportunities by exploiting on such opportunities through strategic partnership. It further includes the ability to be able to assess the customer needs and determine what the clients need through market sensing and tweaking/reconfiguring the product offering in line with the consumer needs and expectations. This is because the advantages that an organization may have enjoyed continue to become more and more temporary and fleeting hence the notion and need for the exploitation of transient advantage.

Insurance products are distributed through brokers, tied agents who only sell for a specified insurance companies), independent agents who sell for a number of companies (but unlike brokers are not allowed to receive premiums from clients and are agents of the insurance companies while brokers are agents of the clients buying insurance). Insurance is also distributed directly by the insurance companies to the clients or clients reach out through technological enablers like mobile applications. The Dynamic Capabilities view considers the model used as an important aspect of *seizing* the opportunities that present to the organization. Transient advantage theory holds that such models help an organization to *ramp up* and distribute its new products

1.0 Statement of the problem

The performance of the private health insurance sector in Kenya has continued to be way below expectation with most of the companies reporting losses. Health insurance players in the industry continue to compete for the same client base without registering any significant improvement in the penetration levels (Kazungu & Barasa, 2017). The health insurance sector continues to face poor performance in terms of profitability driven by

competition amongst insurance companies that has resulted into undercutting (Kituku & Amata, 2016). The health insurance industry in Kenya was put on the spotlight following the collapse of Mediplus Insurance in 2003 and Strategies Health in 2005 (Gitau, 2013).

Related studies conducted in this area include; Aziz and Theuri (2016) who examined approaches by these schemes to enhance performance with use of pricing, customer communication, product innovation, and market research as the variables. Maina, Kithuka and Tororei (2018) examined perceptions in insurance uptake in rural areas in Kenya and used income levels, level of awareness and accessibility to outlets as variables. Kituku and Amata (2016) investigated the determinants of penetration of health insurance in the informal sector. These studies present conceptual gaps, as this study focused on distribution models as a driver of transient advantage to enhance performance of private health insurance companies in Kenya.

1.2 Purpose of the study

The main objective of the study was to determine the influence of distribution models on performance of private health insurance sector in Kenya.

2.0 LITERATURE REVIEW

2.1 General Review

The early stage of transient advantage is the *launch* process which involves "identification of opportunities and mobilization of resources so as to make use of it". The needed employees at this stage are those that can experiment and iterate rather than being able to "manage large, complex organization. In this stage, the organization has to invest on research and development for the organization to be innovative. Without innovation and *innovative products*, it is impossible to have the transient advantage wave take off.

Next comes the *ramp up* where life is breathed into the idea. In this stage a company needs "a labor force that can assemble the appropriate resources with the best available quality to ensure objectives are met". This stage involves the distribution of the innovated product to the clients to create place value. *The distribution models* will vary depending on the kind of the product or service being provided. A good product which remains in the company warehouse without being distributed cannot be gauged on whether it is a good or poor product. Various distribution models deliver the product to the consumers who will eventually become 'repeat customers' if they like the product. This ultimately affects the success of the firm. If a business is successful it enters the *exploration* phase where it attains profitability that forces an answer from competitors.

The exploration stage requires that the organization takes advantages of existing relationships or puts efforts to establish business relationships either horizontally or vertically. *Strategic partnerships* then come into play where two organizations while retaining their identities, come into an agreement with the aim of achieving/realizing their mutually beneficial strategic objectives by exploiting each other's capabilities and strong areas (McGarth, 2013). Success, more often than not, generates competition which leads to "weakening of the advantage". This places demand on the business to *reconfigure* so as

to prolong the advantage. An organization will be made aware of the need to 'reconfigure' of 'disengage' by being in touch with its client base. That is market sensing.

Distribution models are constantly changing in order to suit the company and also to move with changing times (Rocca, 2017). There are a number of ways goods and services can be availed to clients and they are referred to as distribution channels. There are a number of channels but these three are used in most business models: Direct end distribution which involves selling to companies and by setting up a product line in small business and encompassing your sales team and secondly it can be carried out through a dealer network: This is where you create a sort of franchise with the dealers being your actual customers as they have access to a certain geographical area and understand the needs of the clientele cutting down cost of research and marketing. Lastly, VAR (Value-Added Reseller) who actually bundles it with other products and resells it. For any distribution model to work the entire team involved must be in-sync and a framework set up to resolve any issues that might actually come up because self-interest among members may cause the distribution chain to fail (Kiran, 2012). In distribution, it is critical for every party involved to have total believe on the product being sold in the network/channel.

Strategically, executives need to pick a distribution model or create their own that meets the firm's needs. There are many determinants that are critical which include sustainability of the system of delivery of goods or services to a client, unity and division of labor whereby the roles of everyone in the distribution chain are clear cut to allow for the system to run efficiently ,this also does not preclude the fact that the control of the flow of goods must be either in the hands of the distributer or the actual manufacturer and that there is no middle ground (Babic', 2010). While selecting a distribution model, businesses will consider the costs of such model as this would have an impact on margins which in turn affects performance. They would also consider how efficient and effective the model is to ensure that the expectations of the customers are met and that the products/services on offer are available and accessible to the customers.

According to CIFP (2018) it is futile for an insurer to restrict themselves to the same old strategies. They need to be aggressive by adopting a multi-faceted distribution mechanism that makes the firm more agile to come up with policies that can incorporate technological advances to expand their distribution domain. To exploit on transient advantage, insurers have to ensure that their strategies are in harmony with what their consumers want. Lifestyle changes and customer needs will determine future models of distribution, as well as maintain previous strategies if need be. The insurance industry is today combining distribution channels with other financial services such as banks and capital markets.

Customer expectations are unique with the demographics rapidly evolving. Many economic factors such as increase in income, stock market performances, interest rates, inflation, savings rate, etc.; also influence customer attitudes and requirements. Distributors also seek to uniquely brand themselves in the market and thus require tailor made products for them. They are looking for ways to increase the amount of a customer's funds that is used in purchase of their goods by providing more products so as to adequately satisfy market needs such as in investment. Rivalries in the sector stem from

both industry and non-industry players. The more innovation yields positive results for firms, the more other companies want to adopt the strategies (CIPF, 2018).

To prevent entry and success of non-industry players in the market, insurance firms are coming up with products that efficiently cover all the needs of the market by providing tailor made solutions in terms of coverage and cost. This rivalry keeps industry players on their toes forcing them to come up with innovative product lines that satisfy the market adequately. The sector is often under scrutiny and therefore firms have to make constant appraisals of their products and systems to ensure compliance. Since most scrutiny results in policy changes it allows innovative firms to carve out more opportunities in the market. Regulations affect the entire process of coming up with a product and its grooming to final version (CIPF, 2018).

2.2 Empirical Review

Kalubanga, Tumwebaze and Kakwezi (2012) sought to investigate the effect of multi-dimensional approach on a firm's performance. A cross-sectional study approach was used together with the quantitative and qualitative research designs. A sample was determined scientifically from a study population of senior and junior staff engaged in sales and distribution, and distribution agents, wholesale and retail. It was found that efficiency in distribution models support overall firm's performance, multi-channel distribution management practices have an effect on the performance of a firm and that multi-channel distribution operations face a number of challenges including difficulties in multi-channel activities coordination resulting into inter-channel conflicts, and intra-channel competition threatening the firm's pricing power. According to Kalubanga *et al*., (2012) changes in the market coupled with the fact that customer preferences constantly shift has resulted in firms taking on mechanisms to distribute their products. The number of distribution channels is an organizational agility ploy to increase market control.

Maina, Kithuka and Tororei (2018) noted that bancassurance which is a distribution channel controlled by the banks has become a serious area of focus by the financial services organizations like banks and savings and credit cooperatives (Saccos through Saccoassurance). This is because of the incomes received as commissions by placing businesses with insurance companies. They have resulted into a stiff competition with brokers especially for individual clients who happen to have bank accounts with the banks. This channel opens an array of opportunities for insurance companies as individual members would be allowed by the banks to finance their premiums through insurance. This has helped tap a market that would otherwise been tapped. In addition, some products from the banks like property loans require that the property must be insured to safeguard the bank interests.

A study conducted by Abaluck and Gruber (2016) on the quality of choices in health insurance markets distribution showed that customers have customized their approach by making use of both agents and internet/digital solutions. A common trend is where by consumers seek out relevant information on the internet such as on social media platforms then approach the agents. This has resulted in insurance providers streamlining all their

services across the board. A number of clients with issues touching on the trust levels on insurance intermediaries would then prefer dealing with insurance companies directly.

Such broken trust would emanate from fraudulent activities by the intermediaries as noted by Abaluck and Gruber (2016) where they would collect money from clients and not submit to insurance companies. It would also touch on instances where clients would oversell and misguide the clients on the products they sell only for clients to know the truth at the time of making a claim. To serve such clients, insurance companies would have business development officers and call centers to attend to quote request and inquiries. The insurance companies would also have business retention officers or customer service officers whose mandate would then be to relate with the clients and ensure that such direct clients renew their business with the company. The retention officers would have the target of achieving the required retention/renewal rates by premium count or policy count (also known as persistency).

According to Eina and Levin (2015), higher rates of competition and the fact that consumers have moved away from traditional approaches has led to innovation in the health insurance sector. The new approaches were developed by insurers to enable them to easily relate with their consumers. On previous occasions channels only provided relevant product information but this approach has faded over the years with the use of these models to adequately talk to prospective clients and showing all relevant products coming to the fore.

Maina, Kithuka and Tororei (2018) examined distribution models and insurance uptake in rural areas in Kenya and used income levels, level of awareness and accessibility to outlets as variables. This cross-sectional study sampled 139 pregnant women attending the antenatal clinic at a level 5 hospital in a Kenyan district. There was a significant relationship between insurance uptake and marital status Adjusted odds ratio (AOR) 6.4(1.4-28.8). Those with tertiary education were more likely to take up insurance AOR 5.1 (1.3-19.2). Knowing the benefits of insurance and the limits the insurance would settle in claims was associated with an increase in the uptake of insurance AOR 7.6(2.3-25.1), AOR 6.4(1.5-28.3) respectively. Monthly income and number of children did not affect insurance uptake. Being married, tertiary education and having some knowledge on how insurance premiums are paid are associated with uptake of medical insurance. Information generated from this study if utilized will bring a better understanding as to why insurance coverage may be low and may provide a basis for policy changes among the insurance companies to increase the uptake.

Kwong and Zhang (2017) conducted a study on an adaptive estimation of distribution algorithm for multi-policy insurance investment planning. The study stated that distribution models of insurance products and efficient service delivery are the cornerstone of insurance business. The growth in the sector can be attributed to the efficiency of distributors. A particular aspect that has stood out is that the multi-faceted approach has not only yielded better results for the firm but also for the consumer base. The process of channel diversification and expansion has accelerated in India since insurance liberalization.

There has been a major push to improve affordability and quality of service in recent times Cappiello (2018) examined the new frontiers of insurance distribution. The study finds that the corporate customers and institutional investors are interested in liability insurance, group insurance and health insurance. These can be found in metropolitan centers and cities which requires an alternative approach since the consumer base is well versed in the relevant information about products and cost. Corporate agents, brokers and direct marketing are ideally suitable to attract these customers. Consequently, from a single distribution channel industry i.e., the individual as well as continuing with the search for more. Due to rivalries in the sector distribution strategies have been adjusted so as to include agility and professionalism in the face of problems affecting the sector across the globe.

A distributor who understands the industry is able to be an efficient marketing tool. Growth in the market, customer loyalty, customer needs and competitor rivalries among the life and health insurers will stimulate innovation especially in distribution mechanisms. This will result in distributors that are competent enough to correctly present facts and prevent miss-selling. Even though there has been notable improvement in marketing strategies used the change has not been felt in terms of quality surroundings. But it is certain that these new approaches have increased the penetration rate in the country.

2.3 Conceptual Framework

Tromp and Kombo (2009) defined a concept as a theoretical or universal thought construed or acquired after certain occurrences. A conceptual basis is an arrangement of wide thoughts and standards derived from significant areas of examination and used to build a resulting introduction. Figure 2.1 is a presentation of the study concepts

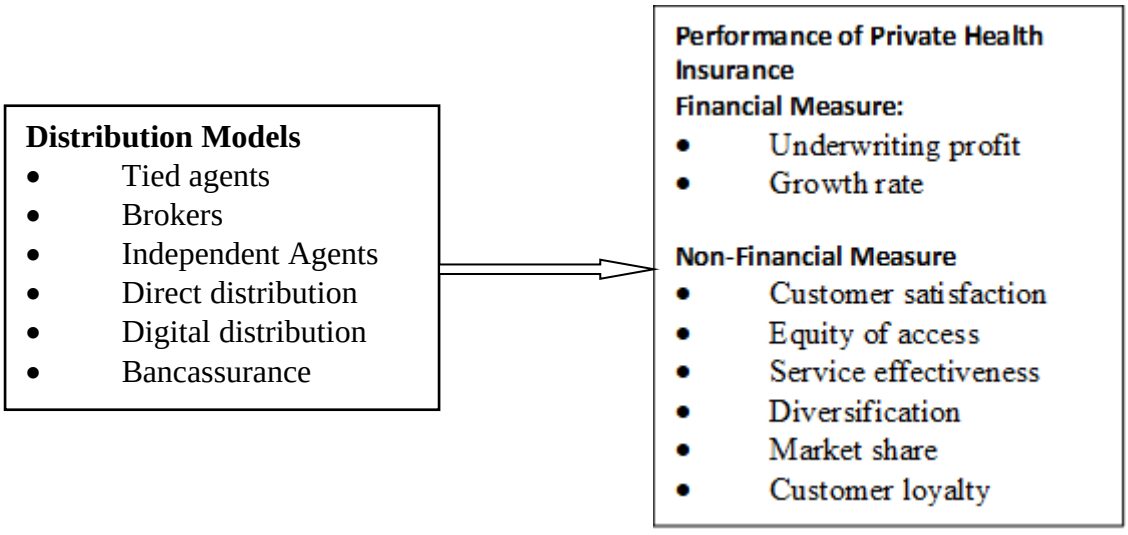

Figure 2.1: Conceptual Framework

3.0 METHODOLOGY

This study used the descriptive research design. Descriptive studies are those used to describe phenomena associated with a subject population or to estimate proportions of the population that have certain characteristics. Due to constraint of time, this research took a cross sectional approach where fresh set (sample) of people are interviewed every time. The study population was drawn from five departments namely strategy, finance, operations, customer service and sales of 19 private insurance companies. The quantitative data was collected through close-ended 5-point Likert scale questionnaires that were filled by employees in the respective identified departments. The study used 380 respondents as the sample in the study. In this study, test-retest technique was used to assess the reliability of the research instruments (Mugenda & Mugenda 2012). Content validity was measured by logically comparing the test task with the content of the behavior. Quantitative data was analyzed by calculating the response rate with descriptive statistics such mean, median, standard deviation and proportions using statistical package for social sciences (SPSS). The analyzed data was presented by use of bar charts, graphs and frequency tables. Inferential statistics were done including correlation regression and ANOVA.

4.0 RESULTS AND DISCUSSIONS

The results are discussed as follows: response rate and characteristics of respondents; this is followed by descriptive results which show the extent of manifestation of transient advantages and performance. The third set of results comprises the strength of the relationship between transient advantages and performance which are then followed by regression results. The last set of results are those of the controlling effect of age and size on performance in health insurance.

4.1Response rate

Lack of response to the questionnaire by potential respondents in a sample or population is referred to as non-response bias. Non-response bias is a blow to both the reliability and validity of survey study findings (Draugalis, Coons & Plaza, 2008). The total number of questionnaires and that were distributed and the number that was collected is presented in the Table 4.1. The number of questionnaires that were administered to the managers, assistant managers and supervisors of private health insurance companies were 380. The responses and non-responses are presented in Table 4.1.

Table 4. 1: Response rate

Response	Frequency	Percentage
Returned	308	81.05%
Unreturned	72	18 .95%
Total	380	100%

A total of 308 were properly filled and returned. This represented an overall successful response rate of 81.05% as shown on Table 4.1. This agrees with Babbie (2014) who asserted that return rates of 50% are acceptable to analyse and publish, 60% is good and 70% is very good. Based on these assertions, 81.05% response rate is adequate for the study.

4.2 Descriptive Results

With regard to distribution models, that the majority (93.2%) agreed the models influenced on firm performance. These findings agree with previous studies (Kalubanga *et al.*, 2012; Kuswantoro *et al.*, 2012) which found that distribution models significant influence on firm performance. The findings further agree with previous studies (Kumar, Anand, & Song, 2016) that even new organization can improve on their performance by adopting innovative distribution models and that organization who adopt robust distribution models have a huge reach to clients while reducing costs which significantly influences on firm performance.

This further agreed with Myers (2014) who noted that the uniqueness and robustness of a distribution channel can make an organization be at a differentiated position and this gives it a significant advantage over its competitors and also affords an organization the opportunity to swiftly take advantage of opportunities as they present. A strong and unique distribution model would enable a firm to have control over a significant market share.

The descriptive statistics of distribution models influence on performance of private health insurance sector in Kenya. Table 4.2 shows the summary results of descriptive results of distribution models

Table 4. 2: Distribution Models

	N Statistic	Mean Statistic	Std. Deviation Statistic	Skewness Statistic	Kurtosis Statistic
Distribution models	308	4.06	0.447	-1.069	1.847

From table 4.2 above, the distribution models had a mean statistic of 4.06 and standard deviation of 0.447 indicating that the respondents agreed with the statements about distributions models.

Inferential Statistics

Non-linear regression model (logit) was used to study the relationship between transient advantage and performance. In order to perform this analysis, performance scores were coded into binary as follows:

$$y* = \begin{cases} 1 \; for \; y > 3.4 \;\; represeinting \;\; \text{good} \; performanace \\ 0 \; for \; y \leq 3.4 \; representing \; \text{poor} \; performanace \end{cases}$$

Where ***y**** = binary representation of performance with ***1= "good"*** and ***0= "poor"*** while ***y*** represents the actual aggregate means scores of performance as reported by the respondents.

The logistic regression model used was as shown in the following model:

$$\boldsymbol{Logit, L_P = \ell n\left(\frac{p}{1-p}\right) = \beta_0 + \beta_1 x_1 + \mu_i} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \boldsymbol{Equation\ 1}$$

The results were shown in table 4.3.

Table 4.3 Distribution models and performance

	B	S.E.	Wald	Df	Sig.	Exp(B)
Distribution model	-0.77	0.366	4.419	1	0.036	0.463

From the results, it was revealed that distribution model significantly (Wald=4.419, p=0.036<0.05) reduced the odds of good performance by about one half (50%: [Exp (B) = 0.463, p=0.036]) at 5% significance level. The results were consistent to a number of studies reviewed in empirical literature.

The study by Kalubanga *et al*., (2012) seeking to determine the effect of multi-channel distribution on firm performance revealed that multi-channel distribution management practices have an effect on the performance of a firm. There is however need to carry comparative research on the basis of sector. There is also a need to consider cross-cultural differences as these would vary from one culture and country to the other.

The study by Kuswantoro *et al*., (2012) seeking to find out the Impact of innovation in distribution channel functions on firm performance among export-oriented, agro-based small and medium enterprises (SMEs) found that distribution channel effectiveness mediated the relationship between innovation in assortment and transportation coordination and firm performance. It was however recommended that future studies consider many other factors that may influence firm performance.

The study by Dumm and Hoyt (2013) found that multiple low-cost distribution models facilitate the ability to illustrate product benefits, shorten customer response time, and simultaneously serve multiple customers. They also note that penetration of these new distribution models has been the highest in mature insurance markets therefore the need to investigate less mature insurance markets.

Kamau (2013) study on the role of insurance brokers and agent in insurance distribution and noted that Insurance brokers are crucial as they work for the policyholder in the insurance process and act independently in relation to insurers. The study however only considered one channel of insurance distribution hence the need to investigate multiple channels which would include independent agents, tied agents, digital platforms and Bancassurance.

Abaluck and Gruber (2016) investigated the quality of choices in health insurance markets distribution and showed that customers are also using multiple channels for buying health insurance products. It was however important to establish whether this trend is evident in Kenya.

Maina, Kithuka and Tororei's (2018) examination of distribution models and insurance uptake in rural areas in Kenya revealed that marital status, level of education and having some knowledge on how insurance premiums are paid are associated with uptake of medical insurance. It was however important to find out the factors that are characteristic to insurance firms that are associated with uptake of medical insurance.

In a study on an adaptive estimation of distribution algorithm for multi-policy insurance investment planning, Kwong and Zhang (2017) stated that distribution models of insurance products and efficient service delivery has been an important element of insurance business.

Cappiello (2018) examined the new frontiers of insurance distribution and found out that the corporate customers and institutional investors required altogether a different distribution strategy

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The findings drawn from this research allow the conclusion that despite the negative influence on health insurance, adequately and skilled Corporate Agents and brokers promote firm's product and services. It was also concluded that marketing network and service centres/branches' proximity attracts more customers. It was also concluded that Omni channel capabilities provide a seamless and responsive customer experience. In addition, it was concluded that companies equip corporate insurance agents with adequate knowledge on how to incorporate the latest technology in insurance to attract new clients thus giving them an edge over competitors. It was further concluded that hiring tied agents who offer after sale services to customers increases their willingness to subscribe to the company's policies. It was further concluded that mobile and digital/online distribution results in better margins as a result of the lesser administrative costs and as a result of the fact that no acquisition costs/commissions are payable. It was also concluded that there is need to refine the process between insurance companies and brokerage firms as well as reduce the dependency on brokerage firms in distributing insurance products.

5.2 Recommendations

The study recommends the employment of multiple channels of distribution of insurance product rather than relying on traditional channels of agent/broker and bancassurance. Mobile applications and internet technology could be used to make access to insurance products more convenient, reaching potential customers where and when they can be found while at the same time cutting the cost of availing these services. To be able to achieve this, there will be need to invest in R&D and as such insurance companies must have budgets for R&D. New distribution avenues like through Saccos should also be pursued. Distribution channels selected must be those that enable insurance companies to achieve their profitability and penetration objectives. It is important to also consider new distribution channels like Saccos which are able to reach clients who are at the bottom of the pyramid

Costs that are linked to distributions make it difficult for firms to gain profits and therefore strategies must be put in place to improve distribution mechanisms. Such as enhanced multifaceted product and channel operations that tackles the issue of revenue targets of the firm and the profits gained. Insurers can attain profitability by creating distribution mechanisms that ramp up sales and reduces expenditure. It is further recommended that health insurance companies co-develop products with banks as well as incentivize the banks to push health insurance products as hard as they have been able to push for non-health products like motor and property insurance.

Insurers can make use of available chances by managing distribution not as just a small part of their firm but as an integral one. This can be done through use of technology and strategic partnerships with proper flow of information, improvement in marketing strategies which in turn causes better sales, as well as a keen eye on performance through a vast system of brokers and agents. It is also important to integrate the core business systems of broking firms and insurance

companies to ensure an end to end process that will make the debt collection process less tedious and reduce on provisions hence resulting into improved profitability.

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