BUDAPEST BUSINESS SCHOOL

FACULTY OF FINANCE AND ACCOUNTANCY

THESIS

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BUDAPEST BUSINESS SCHOOL

FACULTY OF FINANCE AND ACCOUNTANCY

“The Correlation Between the Economic Development and the Insurance Sector of Kenya”

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DECLARATION

I, the undersigned Komen Chemutai Felicity, being aware of my criminal liability declare that the facts and data contained in my thesis correspond to reality, and what is described in it is the result of my own, independent work.

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ACKNOWLEDGEMENT

I want to express my profound gratitude to everyone who has supported me thus far and helped make the completion of this research undertaking possible.

First and foremost, I want to express my greatest gratitude to the Almighty God for giving me the power, health, wisdom, and stamina to complete this undertaking, which is yet another challenging journey.

Secondly, I would want to thank my family and friends for their moral support and encouragement, especially for their understanding when I was absent from them during the project period. Without their support and prayers, I would not have progressed this far.

Last but not least, I want to express my gratitude to my supervisor, professor Tasi Péter for his dedication and drive in seeing this project through to completion.

DEDICATION

This thesis is dedicated to my father and my beloved late mother. Their prayers, encouragement and endless support propelled me to achieve my goal. I will always be grateful to them for raising me to be who I am today.

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CHAPTER 1.

INTRODUCTION

1.1 Background of the study

The growth of an economy is really essential to a country's stability and prosperity both locally and globally. It is the growth that makes it possible for a generation to be better than the previous. The production per person in terms of commodities and services can be used to gauge an economy's growth (Lewis, 2013, p. 13). Growth of an economy is mostly measured as an increase in income of inflation-adjusted GDP per capital. Rapid growth in gross domestic product broadens the size of the economy generally and reinforces its fiscal conditions. It is possible to assess the financial performance of insurance firms at both the micro and macroeconomic levels. This performance is influenced by both internal and external influences, which are represented by the company's distinctive characteristics and the macroeconomic environment (Burca and Batrinca, 2014, p. 299).

According to the Swiss Re (2020) study, the overall insurance penetration rate in the advanced market, which includes the United States, Canada, and several countries in Europe and the Middle East, has been rather consistent over the past ten years. Although there was significant growth in the insurance penetration rate in Europe, the Middle East, and Asia, the average insurance penetration rate among these advanced areas has been around 9.6%. Swiss Re (2019), in a separate research concentrating on Asian economies, noted that the life sector's deterioration, particularly in China, was to blame for the reduction in the total insurance penetration rate in emerging markets in 2018.

The 2020 Global Insurance Outlook Report from the Organization for Economic Cooperation and Development revealed that South Africa has a 3.3% penetration level (premiums/GDP) and that penetration rates in Africa had been failing due to stagnant growth. With a 16.99% insurance penetration rate, South Africa the country with the most advanced insurance industry in sub-Saharan Africa, followed by Namibia (6.69%) and Lesotho (4.76%) (PWC, 2018). On the other hand, according to a report from the Insurance Information Institute, South Africa's contribution to worldwide premium volume in 2017 is only 0.98%. Nigeria, the continent's most populous country, contributes 0.02% of the global premium (Insurance Information Institute, 2019).

East Africa similarly has a very relatively low penetration rate; according to Uganda's insurance regulatory annual report, it was 0.84% in 2018, which was slightly up from 0.81% in 2017). (Insurance Regulatory Authority of Uganda, 2018). As per Tanzania Insurance Revenue Authority (2018), Tanzania's insurance penetration rate was 0.53% in 2018 and 0.54% in 2017. As reported in the Association of Kenya Insurers (AKI) Insurance Industry Annual Report 2021, a gross written premium (GWP) of ksh274.98 billion was achieved in 2021, an increase of 16.86% from the performance of ksh235.31 billion in the previous year 2020.

As per the Economic Survey (2022) of Kenya National Bureau of Statistics (KNBS), Kenya reported its fastest growth rate in a decade in 2021 with the economy expanding by 7.5% compared to the 0.3% contraction reported in 2020. The key sectors which significantly contributed to the country’s gross domestic product(GDP) for Kenya’s economy comprises of: Agriculture, Manufacturing, Wholesale and retail trade, Real estate, Transportation and storage and Financial and Insurance activities. As of 2021, agriculture accounted for approximately 22.4 per cent making it the dominant sector whereas financial and insurance activities accounted for 12.5% of Kenya’s GDP.

According to (Financial Sector Deepening Kenya,2022), financial services sector plays a crucial role in economic life, and current financial systems have made it possible to find answers to a variety of social and economic issues, fostering welfare growth and progress along the way due to the fact that it is consistent with Kenya's Vision, which is to create a dynamic and internationally competitive state that handles high levels of savings and funding for investment.

According to Ngugi et al. (2006), the financial sector is essential to economic growth. In general, it has been shown that the financial sector's depth fosters economic expansion. It has been noted that thriving capital markets boost economic efficiency, investment, and expansion. The capital market in Kenya, however, was characterized as being small and shallow according to reports. Part of the plan for the vision 2030 in Kenya was to attain a

10%annual economic growth rate and reach a 30% investment rate which was intended to be financed primarily through domestic revenue investment.

According to (Ndung'u et al. 2011, p. 299), this industry has contributed to the Kenyan economy's 6.54 percent annual growth rate between 2014 and 2018. Because of this, this sector is essential to Kenya's goal of becoming an industrialized economy through significant amounts of savings and investment, as stated in Kenya's Vision 2030.

Kenya's economy recovered from a decline of 0.3% in 2020 to rise by 6.8% in 2021 due to the effective execution of monetary, fiscal, and financial policies as well as loosening COVID-19 containment measures (Kenya Financial Sector Stability Report, 2022). In Kenya, the financial industry primarily provides banking, insurance, pension, and Sacco services, which collectively account for 58.3, 7.55, 13.95, and 5.72% of the GDP in terms of assets. The insurance sector, which has been referred to as a crucial performer as it plays a significant role in transfer of risks and indemnification and also financial intermediation, is one of the component financial service industries. (Ward and Zurbruegg, 2000, p. 491).

According to (Arena, 2006, p. 3), the strengthening of the banking system and the insurance industry seem to complement each other's responsibilities in the growth cycleAlthough both banking and insurance on their own have a favorable impact on growth, when both are involved, their combined effect is greater. The growth of the insurance market also helps the securities market stay in good shape. Growth of the economy is positively impacted by the expansion of insurance markets.

The two main categories of insurance are life and non-life insurance which is also known as general insurance; the former, as the name implies, provides a cover for one's life or their dependents lives in the event of ones passing or disability. The financial security is aided by some life insurance policies that even offer compensation in the event of retirement or a particular time period. This type of insurance is essential especially if one has someone who depends on them for financial support. deals with risk-reduction strategies for non-life objects. General insurance being the predominant type of insurance, deals with any loss outside death as it covers non-life assets. From 2014 through 2021, the table below illustrates the trend of insurance premiums for each form of insurance as obtained from Association of Kenya Insurers (AKI).

Table 1 Insurance Premiums from the year 2014 to 2021(in billion Kenya Shillings)

Year	2014	2015	2016	2017	2018	2019	2020	2021
Life Insurance Premium	56.97	61.86	73.92	83.45	87.27	97.85	102.61	124.69
Non-life Insurance Premium	100.24	111.93	123.08	126.05	128.85	133.45	132.70	150.29

Source: Author's own construction from Association of Kenya Insurers (AKI). (Using data from 2014-2021)

Since most individuals are compelled to purchase insurance coverage particularly for assets like vehicles and property investment, the relatively larger general insurance market is benefited by this requirement. Due to a component of compulsion, this sector, although it can be used as a proxy to estimate Kenya's pattern of insurance acceptance, it is not a suitable method of estimating how freely people spend their money and how this affects economic growth. In Kenya, however, each life insurance policy is open to the decision of the person or institutional client.

It is believed that life insurance is irrelevant or improper for ideological, cultural, or religious reasons in the majority of developing nations, including Kenya, or that it is less necessary because families already provide for one another's financial stability (Outreville, Life Insurance Markets in Developing Countries, 1996). The Kenyan setting was also found to have a high percentage of individuals with minimal disposable income, almost no public knowledge of the actual benefits of life insurance, a bad savings culture, and a poor general public view of insurers in the society. This is true irrespective of the possibility exists that life insurers will primarily operate as significant investors in long-term funding, enhancing its financial intermediation purpose.

Non-life insurance contributes positively in both emerging and higher income economies, whereas life insurance is only causally connected to growth in higher income markets. This benefits the economy by providing more investment alternatives for financiers as well as the insurer in terms of asset-liability matching for their "long-term" products. According to several studies, long-term investments and financial intermediation are where life insurance appears to have the greatest positive impact on growth. The study finds a link between increasing insurance coverage and economic growth, but it portrays life insurance in developing nations as insignificant and, as a result, as having little impact on the economy. The desire to buy life insurance increases as more individuals support the sector, which should presumably result in significant economic outcomes. The goal is to lessen local ideology now in place in order to boost the need for life insurance in "a resource" economy (Outreville, The Relationship between Insurance and Economic Development: 85 Empirical Papers for a Review of the Literature, 2013).

1.2 Statement of the problem

It is important to accurately determine the actual contribution of the insurance sector to the national GDP as well as its role in our economy. Identifying strategies to make this better by encouraging more individuals to purchase insurance is also crucial.

1.3 General objective

The study's purpose was to establish a correlation between Kenya's rapidly expanding insurance industry and both its contribution to employment generation and overall economic effect.

The below research objectives were used to guide the study:

i. Examine the performance of the insurance sector in Kenya over the years.
ii. Examine the relationship between insurance firms and economic development.
iii. Draw recommendations on the contribution of insurance in steering the development of the economy of Kenya.

1.4 Significance of the study.

The research made clear how important the insurance sector is to the expansion and advancement of our economy. The study offered highly significant insights into Kenya's quest to develop the insurance and financial sectors in order to ensure that their contribution to the GDP is maintained or improved. The study's findings anticipate that the insurance industry's regulators will be able to use these lessons when setting policies or making decisions. The study will identify areas where the insurance industry could seek to increase the existing insurance penetration from 2.27% percent to potentially 4 or 5 percent coverage levels by looking through numerous studies and literature.

1.5 Scope of the study

The purpose of this study is to demonstrate the significance of the insurance sector to an economy. In order to achieve this, the study will use secondary sources to examine the impact of various factors on the growth of the Kenyan economy, including insurance premiums, inflation rate, interest rates and the insurance penetration rate of the country over the years. We will use secondary data from the Kenya National Bureau of Statistics (KNBS), the Insurance Regulatory Authority (IRA), and the Association of Kenya Insurers (AKI). All these secondary sources have guided me on my extensive research on how the market dynamics operate.

CHAPTER 2

LITERATURE REVIEW.

2.1 Insurance Sector in Kenya.

According to Wikipedia, insurance is a risk management technique that is typically used to guard against the risk of potential losses that may or may not occur. Insurance is an agreement by which a business or the state commits to providing a compensation guarantee for specified loss, injury, ailments, or death in exchange for payment of a particular premium.

The term insurance has been defined differently by various authors. “Insurance is a special device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all those in the combination” (Professor Robert Mehr). According to (The Economic Times, 2022), insurance is defined as a financial risk management tool in which the insured transfers a risk of potential financial loss to the insurance company that mitigates it in exchange for monetary compensation known as the premium. In exchange for protection against ambiguous but potentially catastrophic losses, insurance contracts often require for small, regular payments. This income smoothing effect, among other things, aids in lending to firms and reduces the frequency and cost of excessive bankruptcy. The most important benefit of having insurance is that it allows risk-averse people and business owners to engage in higher-risk, higher-reward activities than they otherwise would, resulting in increased productivity and growth.

Generally speaking, an insurance policy is one where an insurer (an entity that assumes liability) agrees to pay compensation to the insured (the person or entity who purchases insurance) upon the occurrence of a certain event, such as fire or theft, as agreed upon in the contract upon payment of the premiums. There are two main categories of insurance.; life and general insurance.

Similar to banks, insurance providers provide financial intermediation by enabling the movement of cash from surplus spending units to deficit spending units through the procedure of providing insurance coverage to policyholders and investing the premium earned in productive sectors. (Gatsi & Gadzo, 2013, p. 1). Through its several primary activities, insurance has demonstrated the importance of its function as a financial intermediary between consumers and the channels that handle their money as they make appropriate investments to manage the insurance premium by their clients.

As stated by the Insurance Institute of Kenya (1999), the background of insurance in Kenya is presented chronologically. During the colonial era, foreigners, primarily British and Asians, introduced it to Kenya. When it comes to attractiveness and future growth, the Kenyan insurance market is among the best in all of Africa.

Raising Kenya's socioeconomic position will help to increase insurance penetration numbers, which have long lagged behind global standards and suggest a significant uninsured consumer market. In Sub-Saharan Africa, Kenya has the third-lowest insurance penetration rate of about 3%, with South Africa at 17% in the lead. The reason for this is that the majority of Kenyans view insurance as a luxurious commodity instead of as a need (The South African Insurance Industry Survey, 2021, p. 81)

The primary participants in the Kenyan insurance market are insurance companies, reinsurance firms, intermediaries including insurance brokers and agents, risk managers or loss adjusters, and other service providers (Kiragu, 2014). A diverse variety of services and products, including investment products and life insurance, have been developed as a result of financial innovation in the business (Ndalu, 2016).

In 2021, there were still 56 licensed insurance businesses and 5 licensed reinsurance companies as they were in the previous year, 2020. In 2021, there were 193 insurance brokers and 19 reinsurance brokers. Compared to 2020, when there were 11,138 agents, 2021 saw a rise to 11,801 agents whereas the number of insurance brokers fell from 204 in 2020 to 193 in 201. There were 38 medical insurance companies listed in 2021 which is a rise from 34 in the previous year. Because of the epidemic, there is a greater awareness of and need for health care coverage in the nation, which has led to a rise in the number of medical insurance providers. In addition, as part of their incentives and wellness initiatives throughout this time, employers have improved medical coverage for their staff members (Association of Kenya

Insurers Report, 2021). In Kenya, the CIC, Jubilee, Britam, ICEA, Lion General, and APA Insurance are the dominant players.

Kenya's insurance sector has a reputation for consistently depending on regular insurance products, services, and distribution methods (Insurance Regulatory Authority, 2015). The players in Kenya's insurance market are still developing new products. Companies have embraced technology as a result of the increased competitiveness by making it easy to make transactions via mobile phone and the internet but much more must be done to reach Kenya's expanding middle class of uninsured citizens (Cytonn Investments, 2015). Companies from Kenya that provide insurance have been establishing themselves in the SADC, COMESA, and EAC regions of the world. The need for this was brought on by Kenyan insureds who wanted to be protected by the same insurer for their interests in manufacturing, tourism, transportation and communications, and building and construction throughout the region (Association of Kenya Insurers Report, 2015)

The low penetration rate, which is under the global average of 7.0%, can be attributed to the fact that insurance is still seen as a luxury and is frequently only acquired when it is necessary or mandated by law. It's important to remember that despite the economic recovery, which enhanced the business climate and emphasized the low level of insurance uptake in the country, insurance penetration remained stable at 2.2% in 2021, the same as what was recorded in 2020 (Cytonn Investments, 2021)

2.2 Economic Growth

According to Hardwick et al. (1999), economic growth is the expansion of a nation's capacity for production, which may be seen as a consistent increase in real national income over a number of years. According to Rodrik (2007), sustainable economic growth makes it possible for society to live better lives, especially for those who are most affected by poverty. Various economic actors contribute to this sustainable economic growth. These sources may include areas or businesses whose outputs significantly aid in an economy's expansion. Economic development is essential, as stated by Samuelson and Nordhaus (2005). An economy's ability to provide its citizens with more of everything, including better food and housing, more resources for health care and pollution control, universal children education, more funding for the military, and more resources for public pensions for retirees, is dependent on how quickly its economy is growing.

The prosperity of an economy ultimately depends on how well the insurance sector is performing financially, which is a critical factor in the industry's growth. The insurance companies put their financial success at risk by taking on various forms of risks (Wani & Showket, 2015, p. 1425). As suggested by Odhiambo (2009), Kenya liberalizing and developing its financial system, could be credited with the rise in National Output and Income, which subsequently incorporates economic growth. A more efficient insurance company ought to see rise in profits as it may maximize its overall premiums as well as net underwriting incomes (Akotey et al. 2013).

Insurance plays a critical role particularly in the ecosystem. It is a very important facet since businesses and people are required to be insured. Africa is currently at 3% in the insurance sector compared to the global average of 7%. In Kenya, the insurance penetration level of gross domestic product sits at around 2.34% which is even lower than the African average. Hence we can rightly deduce that Kenya as a country is facing a tremendous task to ensure that people get covered as well as the businesses. Without that the level of protection, there will be a very huge protection gap.

Enz (2000) asserts that income elasticity, the study of the link between an individual's income and their desire for a specific quantity of a good, could have a significant impact on the rate of insurance penetration. The author also states that as a nation's GDP increases, the demand for the specific product, insurance, becomes less income elastic. Further interpreted, as a person's income rises, so does their desire of insurance as somewhat of a luxury good, however if insurance were viewed as a necessity, then would the demand for it.

2.3 Insurance and Economic Growth in Kenya

The importance of insurance extends beyond the business realm and into the economy at large. The efficiency of an insurance firm is influenced by both industry-specific or internal factors as well as external macroeconomic factors like interest rate, inflation, unemployment, Gross Domestic Product (GDP), changes in exchange rates and money supply. (Mboga 2014) According to Skipper (1997), insurance helped the economy in various ways, including: i) enhancing financial stability and minimizing anxiety, ii) possibly replacing some government security programs, iii) advancing existing protocol and enhancing trade agreements, iv) utilizing cost saving to finance long-term investments, v) effectively managing risk vi) loss reduction, and vii) efficient financial mark location.

The growth and development of our nation's economy has always been greatly influenced by insurance companies and the insurance industry overall. The involvement of these companies to the GDP of the country has been steadily increasing since the time of our colonial rulers, when the first company started to operate. This seems to be due to their own significant contribution towards the real estate sector of the economy, which is greatly facilitated by the money which the firms are able to generate from the premium which they collect from their customers.

When it comes to the nation's industrialization objectives, insurance has been crucial to the economic growth and development of the country. Because of the insurance coverage that is in place (the indemnity concept), a person may opt to invest more money in a particular venture because they would be protected from any losses. In a similar manner, international investors are also urged to get involved in our economy. Advances in the local insurance market have also made it possible for the premiums to be invested domestically rather than being routed to foreign corporations and the economies. According to Outreville (1996)'s analysis of developing nations, these nations tend to rely too heavily on foreign services, which could have a negative effect on the availability of local insurance. The small size of the life insurance market, inadequate firm capitalization, and labor shortage are some of these structural, financial, and technical limitations.

A number of scholars are optimistic about the potential influence of life insurance on the expansion of the economy in emerging markets. Han et al. (2010) concluded that the increase of insurance and the expansion of the economy are related. Furthermore, they point out that emerging nations place a greater emphasis on life and non-life insurance than do industrialized nations. According to their analysis of the effects of insurance density on both varieties of economies, a 1% rise in life insurance coverage for developing nations results in a rise in economic expansion of approximately 2.495%. On the contrary, Enz (2000) notes that life insurance penetration is higher and premium growth is exceeding GDP growth in nations like Kenya, which may ironically benefit from its deteriorating age structure and likely incapacity to maintain social security programs.

Based on the utilization of accumulated funds obtained by the insurance sector and subsequently invested in specific assets, which include financial and property estate investments. Ching et al (2010) study on the Malaysian context helped them realize the importance of the long-term correlation between the life insurance sector of the country and real GDP. The country's savings-investments link would be expanded as a result, which would then raise output and subsequently promote economic growth.

Kenyan citizens are enrolling in insurance plans at an increasing rate, which indicates that the public is quickly gaining confidence in local providers and is a sign of the good changes taking place in the sector. This increased uptake is due to higher literacy rates, laws requiring specific insurances, including the Work Injury Benefits Act (WIBA) or the Road Traffic Act, as well as the expanding middle class's desire to invest and build wealth, mainly among upwardly mobile young persons. Financial institutions too have contributed to the expansion of the insurance sector, as it is currently required to carry some type of insurance in order to access certain services, such as mortgage protection insurance, which safeguards financial institutions from the danger of loan defaulters.

The obligation to protect one's assets is yet another reason that has boosted insurance use, particularly among businesses and other commercial entities. The increase in political violence and terrorism after the disastrous losses experienced during the 2007/2008 elections in Kenya serves as the finest example of this. In the same vein, it can be asserted that the rise in insecurity has led to a demand for more inventive and thorough insurance policies to meet this demand. As an example, after the Twin Towers attack in 2001, there was a greater demand for terrorism insurance in the United States. In a similar light, the Kenyan insurance market saw a significant increase in terrorism policies following the 1997 Nairobi bombings. It is well evident that catastrophes frequently trigger important insurance industry advancements since they typically highlight a demand that isn't being satisfied by the existing market options.

The insurance industry is shifting both nationally and internationally toward a more customer-focused product where the services provided are solely geared toward attracting more customers than one's competing companies. This is accomplished by improving customer experiences, providing streamlined products, enabling for flexible premium methods of payment, and the most efficient approach becoming price undercutting even though its sustainability is highly debatable.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The main goal of chapter three is to provide an explanation of how the research project was conducted, specifically the methods used to collect, analyze, and then compile the data to produce the final product, "The Insurance Industry of Kenya correlation to the Economic Growth and Development of the country."

This study focused on the correlation between the insurance sector and the economic growth of Kenya between the year 2017 and 2021. The study used secondary data that was gathered over a seven-year period. The study's focus was on the insurance sector of Kenya and data was gathered from published materials of the Kenya National Bureau of Statistics (KNBS), Insurance Regulatory Authority (IRA) and Association of Kenya Insurers (AKI)

3.2 Research Design

This causal study design aims to determine the connection between Kenya's economic development and insurance uptake. The precision of the design and its ability to compare data across time were key considerations in its selection. The study's main objective was to determine whether the performance of insurance gross direct premium income (GDPI) as a whole and as a proportion of the gross domestic product, which indicated economic growth during the studied period, had improved.

3.3 Population

There were 56 Insurance firms in Kenya totaling the population. The five-year period between 2017 and 2021 was selected as the coverage period for insurance. The released information from the Kenya National Bureau of Statistics (KNBS), Insurance Regulatory Authority (IRA) and Association of Kenya Insurers (AKI)was used to gather these secondary data.

3.4 Sample Selection

The study's secondary source was based on data from the entire population of Kenya’s insurance sector. The study was conducted over the course of two months.

3.5 Data Collection Method

The information was gathered from secondary sources. These secondary data were acquired from the Kenya National Bureau of Statistics (KNBS), the Insurance Regulatory Authority, and the Association of Kenya Insurers published industry information.

3.6 Data Validity and Reliability

Since data was gathered from published sources, its legitimacy and reliability were guaranteed. Players in the insurance industry are obligated to provide information to the regulator, IRA.

CHAPTER 4

DATA ANALYSIS, INTERPRETATION AND PRESENTATION.

4.1 Introduction.

According to the research methodology, this chapter presents the study's analysis and findings. Results on the correlation between Kenya's economic growth and insurance penetration are shown for the five-year period from 2017 to 2021.

For the purpose of gathering secondary data from Kenya National Bureau of Statistics and Insurance Regulatory Authority, the study focused on 56 insurance companies in total.

4.2 Demographic Information

4.2.1 Economic and Insurance Indicators

Table 2 Insurance Penetration Rates Relative to Gross Domestic Product, KES in Billions

Items	Years				
	2017	2018	2019	2020	2021
Gross Domestic Product (GDP)	8483.40	9340.31	10237.73	10716.03	12098.20
Life Insurance Premium	83.45	87.27	97.85	102.61	124.69
Life Insurance Penetration	0.98%	0.93%	0.96%	0.96%	1.03%
Non-Life Penetration Premium	126.05	128.85	133.45	132.70	150.29
Non-Life Insurance Penetration	1.49%	1.38%	1.30%	1.24%	1.24%
Total Premium	209.5	216.12	231.30	235.31	274.98

Insurance Penetration	2.47%	2.31%	2.26%	2.20%	2.27%
Rate of inflation (%)	8.0%	4.7%	5.2%	5.4%	6.1%

Source: Own editing (Using data from Association of Kenya Insurers 2021 survey and IRA annual insurance reports)

Insurance penetration ratio= (Gross Premium*100)/GDP

In 2021, the insurance penetration ratio increased by 0.07%, from 2,20% in 2020 to 2.27% in 2021. Long-term insurance business made up 1.03% of the total, while general insurance business made up 1.24%.

Between 2020 and 2021, the total premium growth increases from 235.31 billion Kenya shillings to 274.98 billion Kenya shillings.

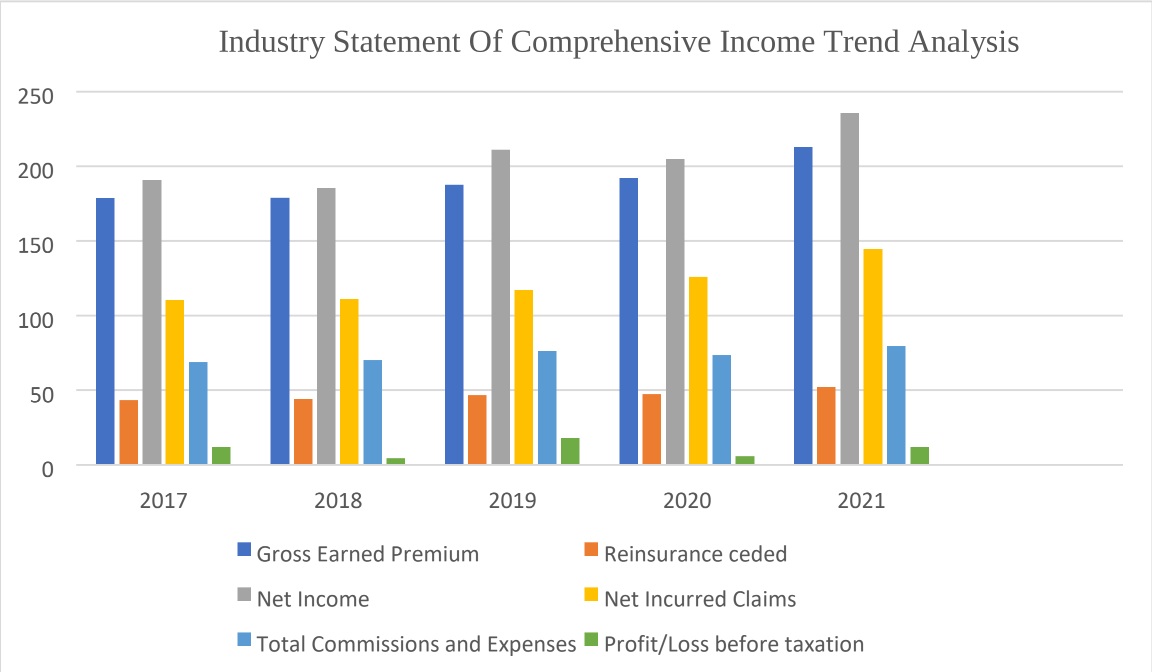
Table 3 A description of Industry Statement of Comprehensive Income, 2017-2021 in Kes Billions

	2017	2018	2019	2020	2021	2020-2021 Growth Rate	2017-2021 (CAGR)
Gross Earned Premium	178.48	178.80	187.57	191.72	212.50	10.84%	4.46%
Reinsurance ceded	43.22	43.99	46.54	46.90	52.22	11.34%	4.85%
Net Earned Premium	135.27	134.81	141.03	144.82	160.28	10.68%	4.33%
Investment and other income	55.28	50.23	70.12	59.81	75.29	25.88%	8.03%
Net Income	190.54	185.04	211.14	204.63	235.57	15.12%	5.45%
Net Incurred Claims	110.00	111.01	116.86	125.91	144.30	14.61%	7.02%

Total Commissions and Expenses	68.53	69.63	76.17	73.23	79.14	8.07%	3.66%
Profit/Loss before taxation	12.01	4.40	18.12	5.49	12.13	120.95%	0.24%
Provision for Taxation	2.66	1.40	5.41	1.81	3.22	78.39%	4.88%
Profit/Loss after Taxation	9.35	3.00	12.71	3.68	8.91	142.12%	-1.20%

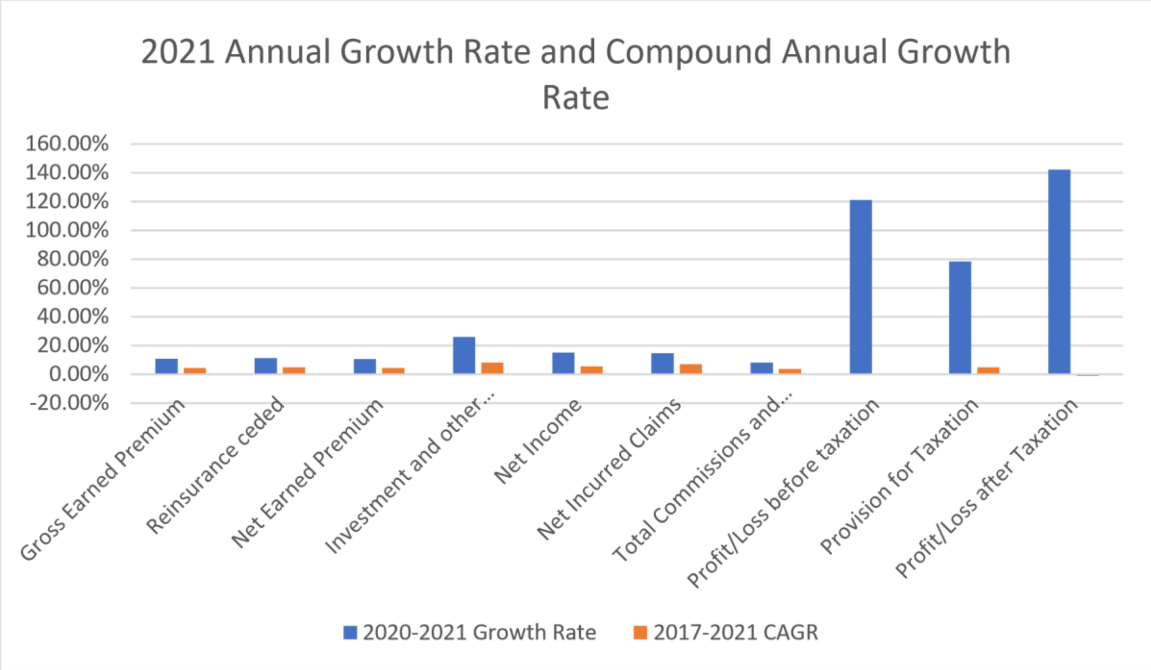
Source: Author's construction (Using data from IRA Annual Survey reports and Kenya National Bureau of Statistics economic survey report)

Figure 1 Industry Statement of Comprehensive Income Trend Analysis, KES in Billions.



Source: Author's construction (Using data from IRA Annual Survey reports and Kenya National Bureau of Statistics economic survey report)

Figure 2 Growth Rate of the Industry Statement of Comprehensive Income



Source: Own construction (Using data from Association of Kenya Insurers 2021)

Following a 0.49% increase in 2020, the gross earned premium grew by 10.84% in 2021. In the same time frame, reinsurance premiums ceded climbed by 11.34%, whereas the net premiums earned shot up by 10.68%. In 2021, net income rose from KES 204.6 billion to KES 235.57 billion, which is a 15.12% rise.

Additionally, rising by 14.61% and 8.07%, respectively, in 2021 were net incurred claims and total commissions and expenses. Profit before taxes shot up dramatically by 120.95%.

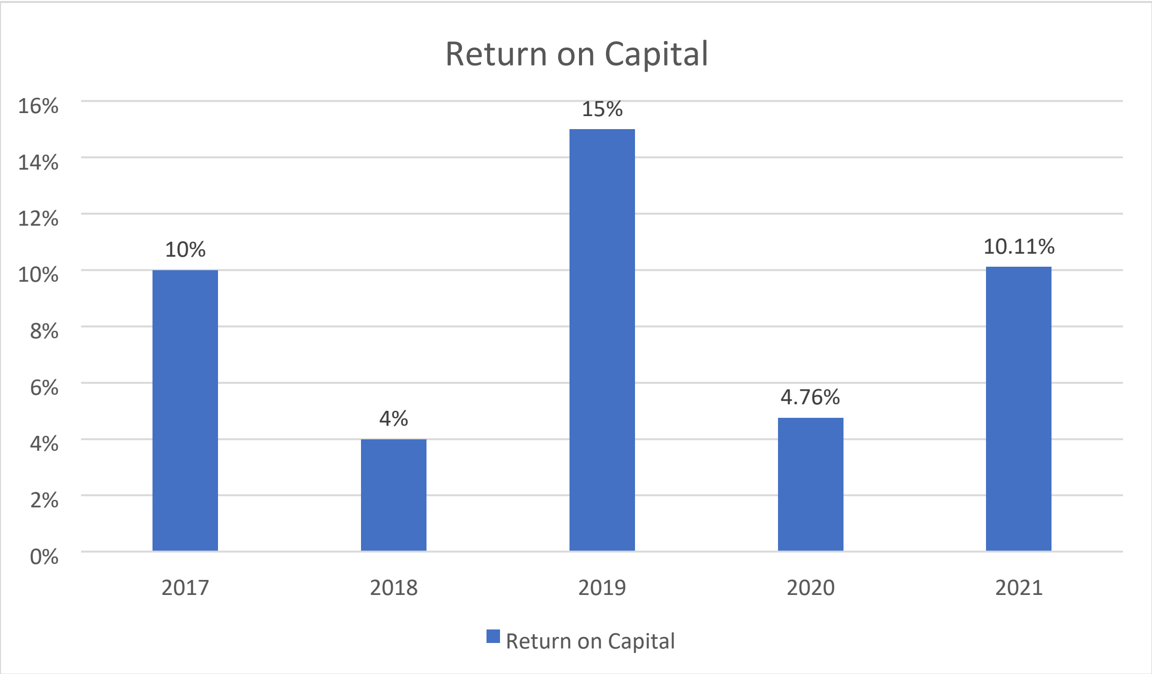
Table 4 Summary of Statement Financial Position, 2017-20212 in KES Billions

	2017	2018	2019	2020	2021	2020-2021 Growth Rate	2017-2021 CAGR

Share Holders Capital, Life Fund and Reserve	115.65	119.28	121.92	115.48	119.93	3.85%	0.91%
Total Assets	571.96	630.72	695.58	737.84	805.48	9.17%	8.94%
Total Liabilities	456.30	511.45	563.61	622.36	685.55	10.15%	10.71%
Net Assets	115.65	119.28	121.92	115.48	119.93	3.85%	0.91%
Profit/(Loss) before Tax	12.05	4.40	18.12	5.50	12.13	120.55%	0.16%
Return on Capital Employed	10%	4%	15%	4.76%	10.11%	112.39%	0.28%

Source: Author’s editing (Using data from IRA annual report)

Figure 3 Return on Capital for A 5-Year Period, 2017-2021



Source: Author’s editing (Using data from IRA annual report)

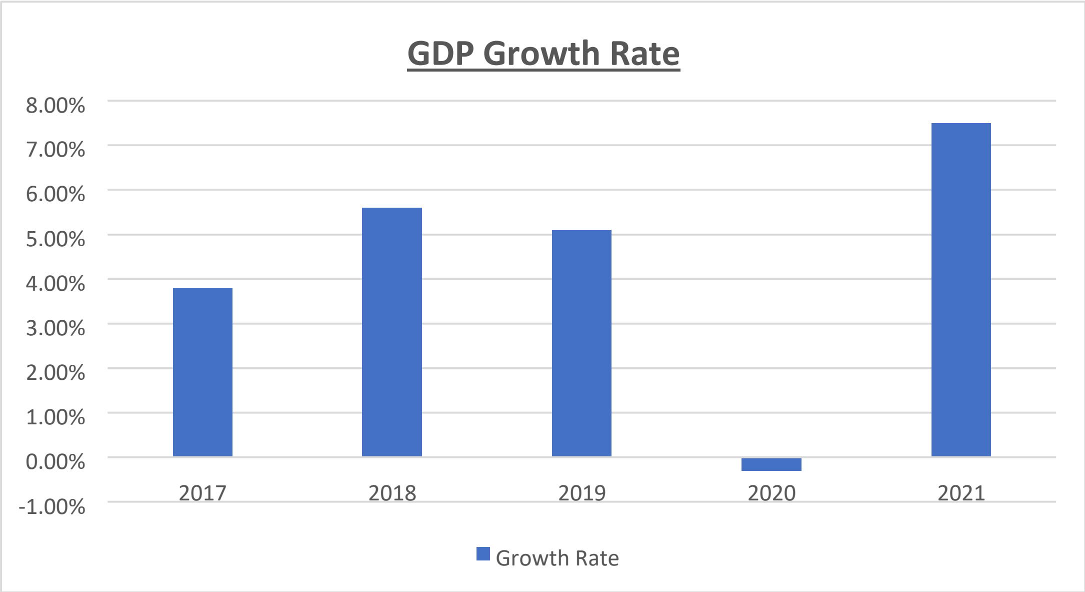
The Return on Capital increased from 4,76% in 2020 to 10.11% in the year 2021. The compounded annual growth rate for the period of five years was 0.28%.

Table 5 Key Performance Indicators for Insurers

Indicator	2017	2018	2019	2020	2021	Annual Change (%)
Gross Premium Income	209001289	216261729	229499718	234775753	276064126	17.6
Net Premium Written	165852034	172322202	182658282	187853004	221470562	17.9
Claims Incurred	56151961	56928003	58961581	58311459	70139114	20.3
Commissions	12495181	11487628	10957562	11157093	13502337	21.0
Management Expenses	41197262	44072857	45702207	44173611	46786664	5.9
Investment Income	51675571	44514367	66982398	50608392	68151650	34.7
Profit/Loss after taxation	13642971	7269263	15119928	6388955	5726359	-10.4
Investments	483799656	524237249	594028115	656460833	731490222	11.4
Assets	590953337	635035110	709045429	765932477	845834750	10.4
Shareholders' funds	147255007	149134602	161635278	166069303	173102044	4.2
ROA	3.2	1.8	3.0	1.3	1.6	0.3
ROE	9.7	4.9	9.9	3.9	5.1	1.2

Source: Author's editing (Using data from Economic Survey 2022)

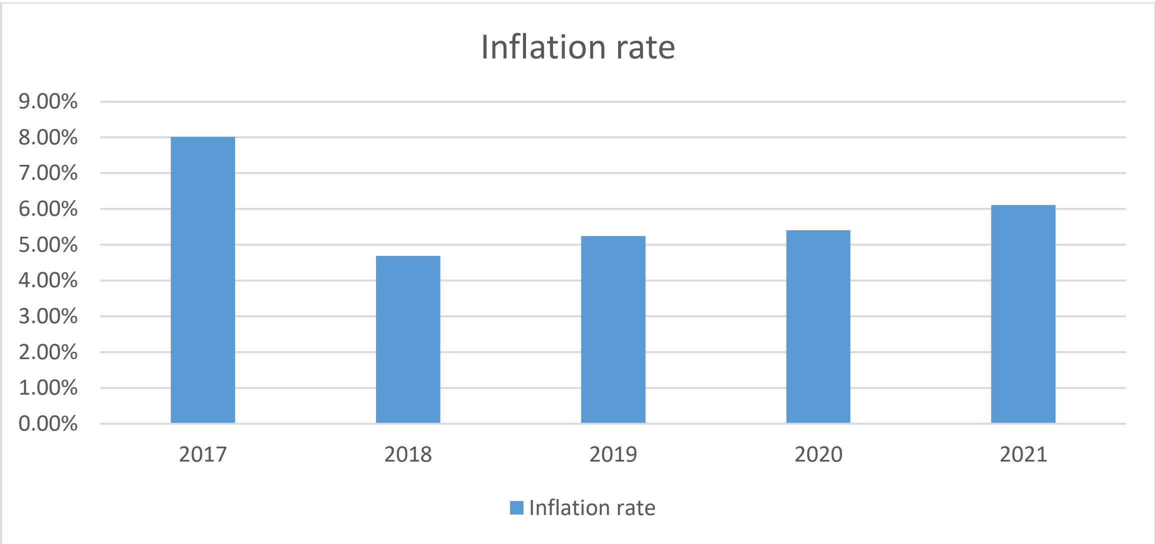
Figure 4 Kenya's GDP Growth Rate



Source: Own construction (Using data from Association of Kenya Insurers 2021)

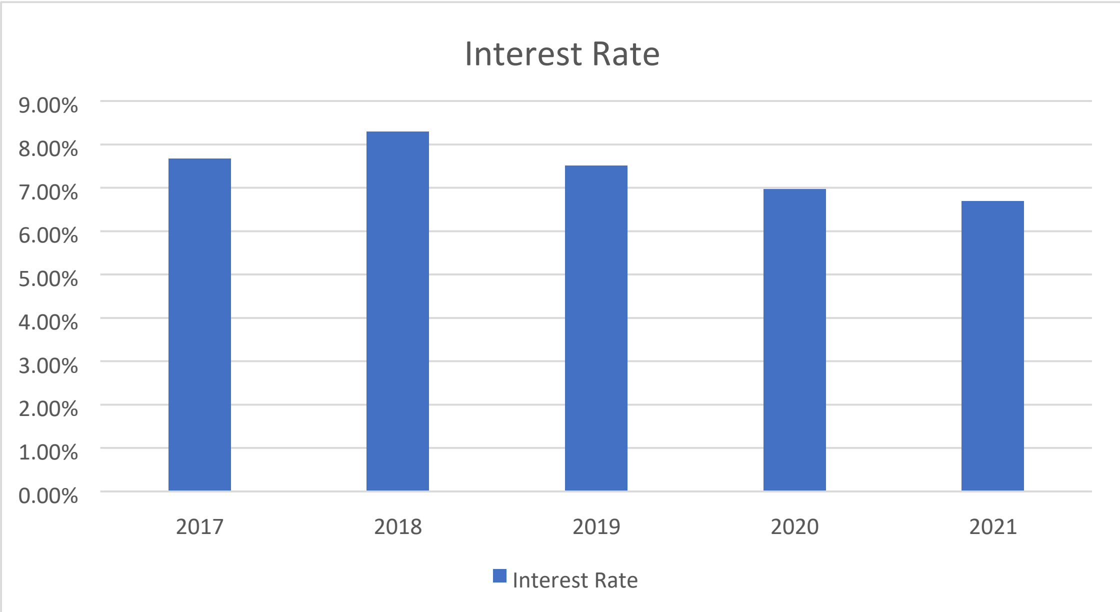
There was an increase in GDP growth rate of Kenya to 7.5% in the year 2021 as compared to the contraction of 0.3% in the previous year 2020.

Figure 5 Kenya's Inflation Rates



Source: Own construction (Using data from Association of Kenya Insurers 2021) The rate of inflation shot up to 6.11% in the year 2021 from 5.40% in 2020.

Figure 6 Kenya's Interest Rate



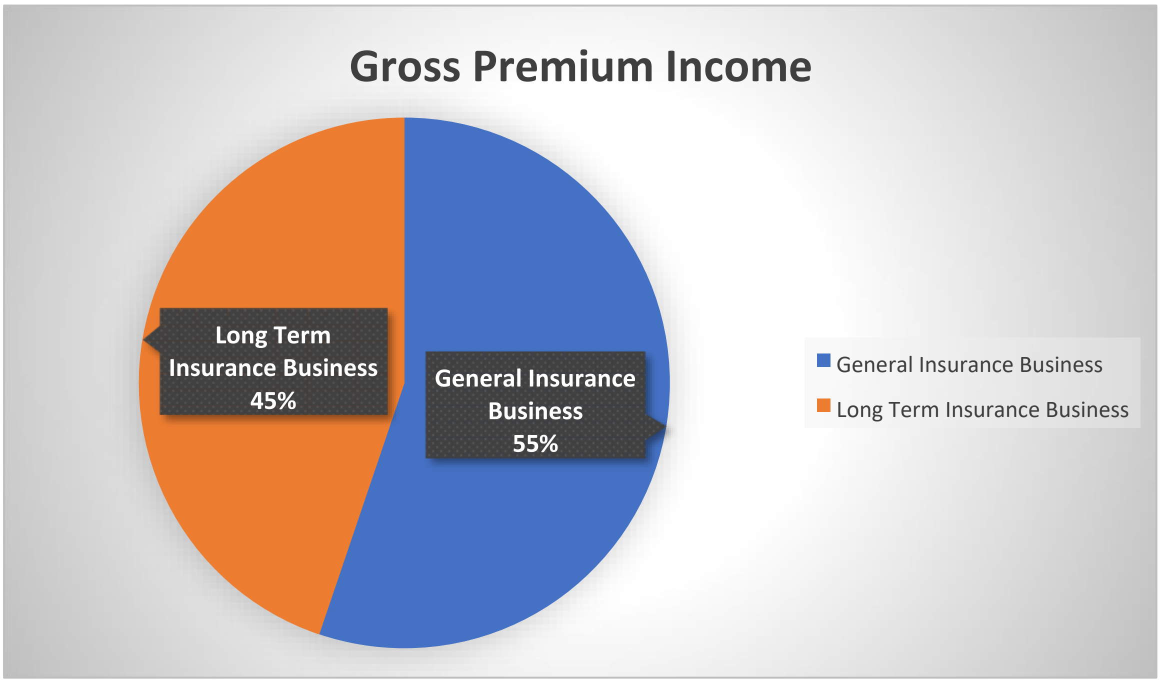
Source: Own construction (Using data from Association of Kenya Insurers 2021)

The interest rate decreased to 6.69% in 2021 from 6.97% in the previous year, 2020.

4.3 Types of Business Transacted

The goal of the study was to find out the kinds of businesses that Kenyan insurance companies engage in. Two types of business were identified based on the findings: general business and long-term insurance business.

Figure 7 Total Industry Premiums Composition



4.3.1 General Insurance Business

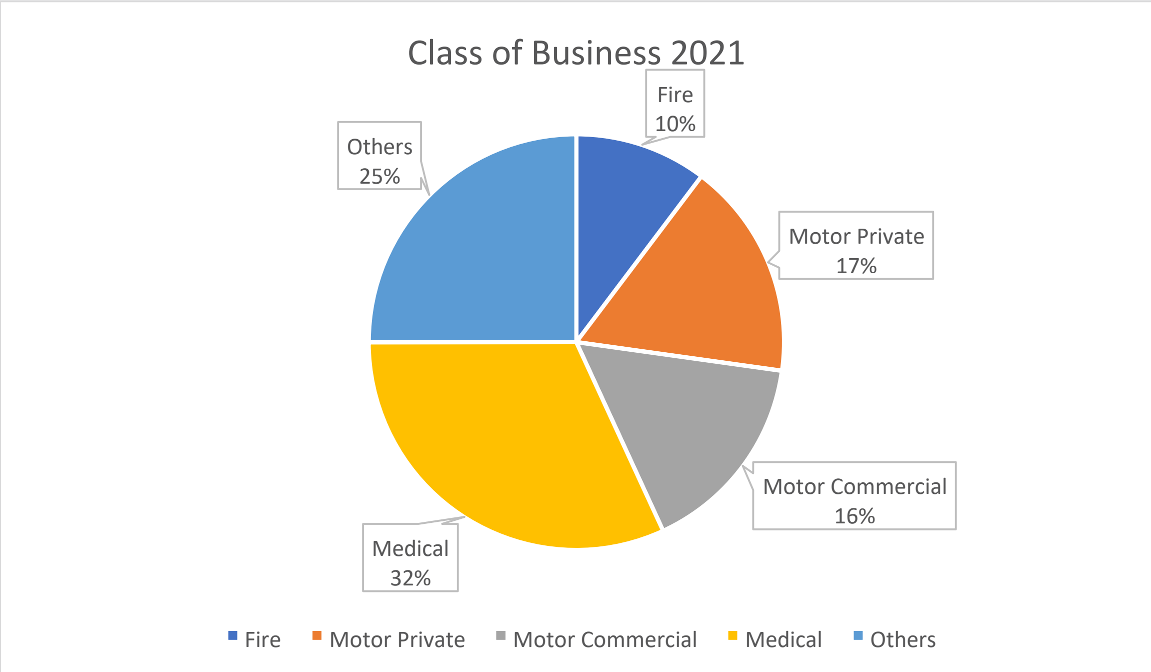
Table 6 Premium Distribution Per Class of Business,2021 KES '000

Class of Business	2021	% Contribution
Fire	15545222717	10.34%
Motor Private	24862574133	17%
Motor Commercial	24462554846	16%
Medical	47642138463	32%
Others	37783637616	25.14%
Total	150296127775	100%

Source: Own construction (Using data from Association of Kenya Insurers 2021)

The total growth written premium for the general insurance business is 150.3 billion Kenya shillings. This is a 13.26% rise as compared to the year 2020 which the total growth written premium was 132.70 billion Kenya shillings.

Figure 8 Premium Distribution Per Class of Business,2021(%)



Source: Own construction (Using data from Association of Kenya Insurers 2021)

The distribution of gross direct premium incomes by class for general insurance business over the course of five years is displayed in the table below.

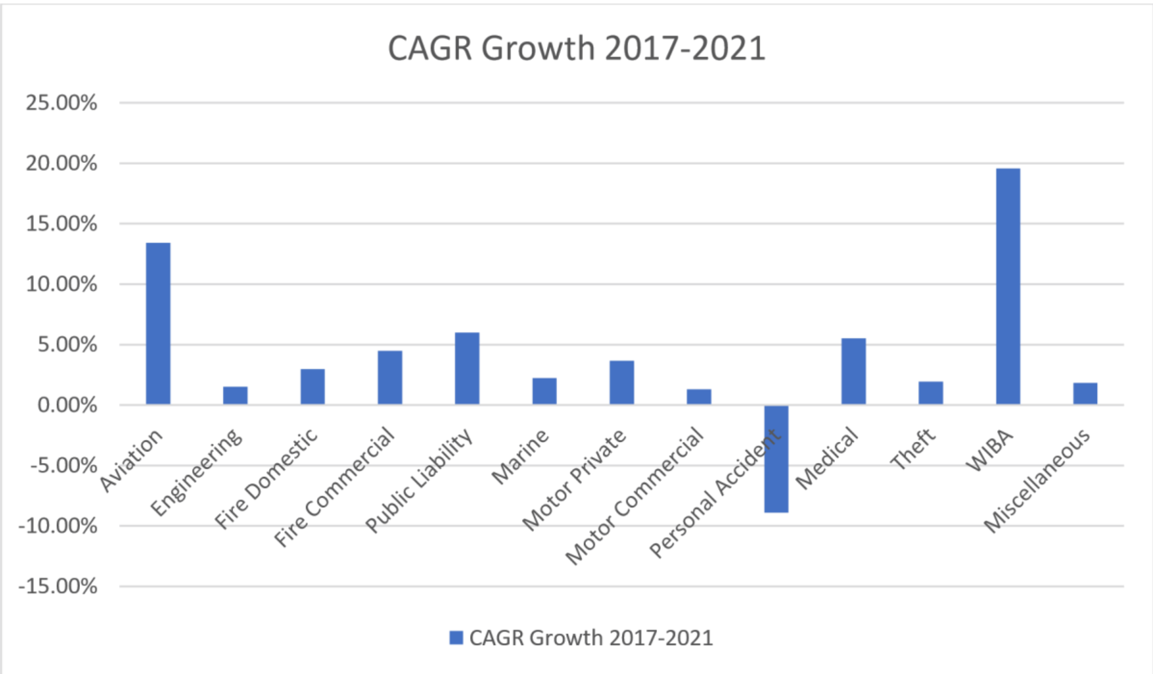
Table 7 Premium Growth per Class for General Business, 2021

Class of Business	2020	2021	Growth,(%)	CAGR 20172021 Growth (%)
Aviation	2528511	2595195	2.64%	13.41%
Engineering	3471933	4601444	32.53%	1.52%
Fire Domestic	1802964	1765247	2.09%	2.97%

Fire Commercial	11431930	13779976	20.54%	4.49%
Public Liability	3230408	3456118	6.99%	6.00%
Marine	3505273	4093920	16.79%	2.23%
Motor Private	23489125	24862574	5.85%	3.67%
Motor Commercial	21247898	24462555	15.13%	1.30%
Personal Accident	2408748	2505763	4.03%	-8.91%
Medical	44359685	47642138	7.40%	5.53%
Theft	3988686	4119531	3.28%	1.94%
WIBA	7166486	12145157	69.47%	19.57%
Miscellaneous	4067707	4266510	4.89%	1.84%
Overall	132699356	150296127	13.26%	4.50%

Source: Own editing (Using data from Association of Kenya Insurers 2021)

Figure 9 Gross Premium CAGR Percentage Growth for the last 5 years, (2017-2021)



Source: Author’s construction (Using data from Association of Kenya Insurers 2021) Except for fire domestic, which saw a reduction of 2.09%, other classes saw a rise in grow written premium in 2021. With a growth rate of 69.47%, Work Injury Benefits Act (WIBA) had the largest increase, followed by fire Commercial at 20.54%. Except for personal accident, which saw a fall of 8.91% in 2021, all insurance classes experienced compound annual growth rate.

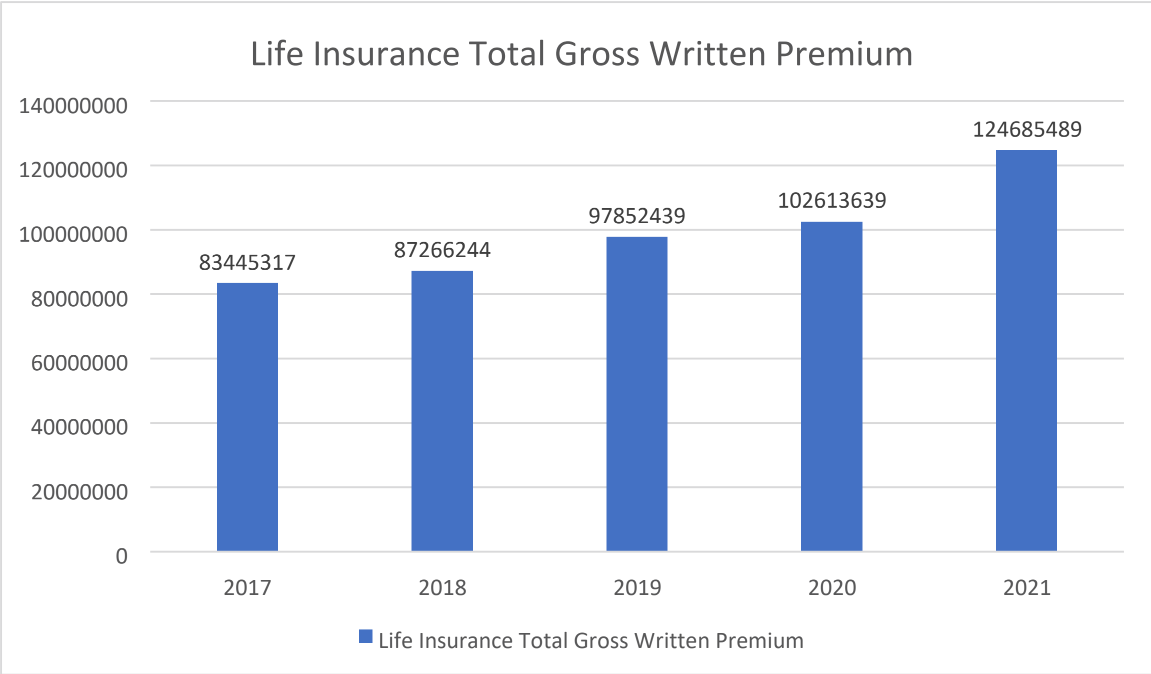
4.3.2 Long Term Insurance Business

Table 8 Life Insurance Total Gross Written Premium, 2017-2021 KES ‘000

Category	2017	2018	2019	2020	2021	2017-2021 Average Growth Rate
Pension/Deposit Administration	29363388	33260652	36917072	40937326	49568309	11.94%
Ordinary Life	24676591	26607009	32718830	31527302	35260867	9.89%
Group Life	25241070	23167732	25109989	26124621	36132408	12.66%
Investment/Unit linked	4164268	4230851	3107048	4024390	3723905	18.99%
Total	83445317	87266244	97852439	102613639	124685489	11.26%

Source: Author’s construction (Using data from Association of Kenya Insurers 2021)

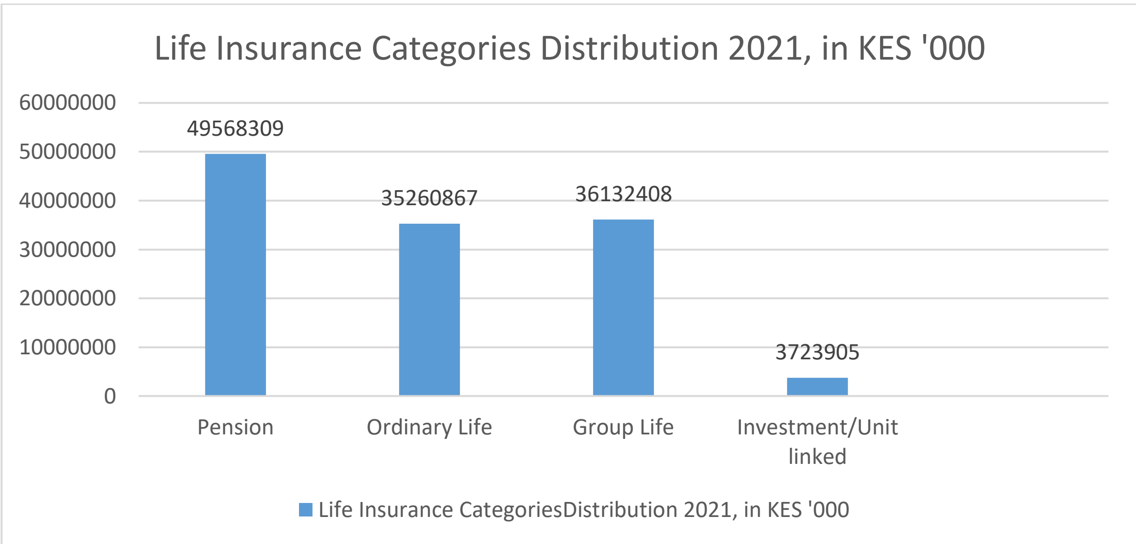
Figure 10 Life Insurance Total Gross Written Premium Trend, 2017-2021 KES ‘000



Source: Own construction (Using data from Association of Kenya Insurers 2021)

The Gross Written Premium increased from 102.61 billion Kenya shillings in 2020 to 124.69 billion Kenya shillings in the year 2021, which is a 21.51% increase.

Figure 11 Life Insurance Categories Premium Distribution 2021, in KES ‘000



Source: Own construction (Using data from Association of Kenya Insurers 2021)

Pension/Deposit Administration was the leading category in terms of premium amount registering 49.6 million Kenya shillings. Investment/Unit linked category was the least registered with an amount of 3.7 million Kenya shillings.

CHAPTER 5

SUMMARY CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction.

The chapter's main objective is to assess the correlation of Kenya's insurance market and its penetration in Kenyan society and the economy as a whole, as this market has the potential to be very important to our country's economic development, or Vision 2030. Included in this chapter is the study summary, a discussion of the findings, conclusions, and suggestions for further research based on the study's goals.
The research focused on all the 56 registered insurance companies that are in Kenya and their performances over a period of five years and they were acquired from various secondary sources.

5.2 Summary

According to Mahul et al. (2009), the insurance penetration ratio is calculated is by taking the gross direct premium income (GDPI) as a proportion of the gross domestic product (GDP) of any particular country. The insurance sector was best suitable for this research because they exemplified one of the key pillars of the economy of Kenya. In addition, unlike those of unregulated enterprises, information on the insurance penetration, gross domestic product, and gross direct premium income was easily accessible because they are subject to the oversight of the Insurance Regulatory Authority (IRA) and are required to submit their yearly financial reports to the Authority. The regulatory framework has been strengthened, which has had a significant impact on the insurance market in Kenya. There have been more players in the market, from three in the 1900s to fifty-six in 2010.

Access to insurance products has not taken off in the majority of Kenyan population segments, this is indicated by the low penetration levels which suggests that the product is only reaching a small portion of the potential market. Access to financial services is a potentially significant way to help lower poverty, especially when added to other economic assistance for low-income households.

The objectives of this study were to examine the performance and secondly the correlation between the insurance sector and the economic development of Kenya over the years. According to this objective, the findings demonstrated that Kenya's insurance sector has a significant positive impact on the country's economy. As a result of the study, it was assessed that insurance firms in Kenya engage in two different kinds of business which are long-term insurance business and general insurance business.

Based on the findings of this research, the insurance penetration level increased from 2.20% in 2020 to 2.27% in 2021 which is still considered as low penetration rate as it is way below the global average of 7.4%. This is owed to the fact that insurance is still viewed as a luxury by most Kenyan citizens and is typically only purchased when it is necessary or required by law. The general insurance business made up 1.24% of the total insurance penetration rate whereas the life insurance business accounted for 1.03%.

The amount of the total gross written premium between the year 2020 and 2021 increased by 16.86%, reaching KES 274.98 billion from 235.31 billion. The gross written premium of the general insurance business was Kshs 150.3 billion in 2021 compared to Kshs 132.70 billion the preceding year, reflecting a 13.26% growth. Over half of the general insurance industry's overall premium income were generated from the automobile and medical insurance which contributed 33% and 32% of the total. When compared to the previous year, gross direct premium income for long-term insurance increased by 21.51% to Kshs 124.69 billion in 2021 from Kshs 102.61 billion in 2020 with pension being the dominant category with a total of Kshs 49.6 billion.

The overall results show that Kenya experienced a rise in the rate of inflation from 5.40% in 2020 to 6.11% in 2021 whereas the interest slightly decreased from 6.97% to 6.69%. Based on the research findings, the investment and other income increased by 25.88% from 59.81 billion in the year 2020 to 75.29 billion in 2021. The industry total assets also showed a 9.17% from 737.84 billion to 805.48 billion. The data analysis results indicate that a decrease in interest rate leads to an increase in the inflation whereas an increase in insurance penetration or the gross direct premium income will result in a rise in Kenya's GDP. This implies that an important factor in the expansion of the economy is the penetration of insurance.

5.3 Conclusion

The main focus of this study was to investigate the correlation between the development of Kenya’s economy and the insurance sector. An extensive literature research was performed with the goal of achieving this objective. According to the literature, the financial sector's expansion has been determined to have a significant impact on any country's economic growth. The study's findings indicate that there exists a connection between insurance penetration and economic growth.

Kenya as a nation experienced an improvement in the business climate owing it to the removal and easing of COVID-19 restrictions that had been in force as of the year 2020. An increase in the gross earned premium by 10.84% in the insurance sector was achieved as a result of the improved operating environment. The ongoing economic recovery from the shocks that enveloped 2020 has led to a rise in net premiums by 10.68% to Kshs 160.28 billion from Kshs 144.82 billion due to people as well as businesses purchasing insurance to protect their properties and activities.

According to the research findings, life insurance increased consistently from 2017 to 2021, growing at an average rate of 11.26% throughout the course of the five-year period. The sector may be able to use the pandemic's catastrophic consequences as an opportunity to reach more Kenyans hence the increase. Due to the 2020 epidemic, there is a greater need for and knowledge of health insurance in the nation, which is mostly to blame for the rise in medical insurance providers.

A significant 25.88% gain in investments and other incomes to Kshs 75.29 billion in 2021 from Kshs 59.81 billion in 2020 is primarily due to fair value returns on equity investment holdings. The increase in the amount of total premiums also contributes to the rise in investments by insurance companies hence boosting the economy’s gross domestic product

(GDP). The increase in the industry’s total premiums can be highly attributed to the advancement in technology as premium transactions can be made via mobile devices. Due to a net rise in profit before taxes, the return on capital in 2021 increased from 4.76% to 10.1%. For the five-year period, the compounded return on capital employed was 0.28%, resulting in a marginally higher return to owners. Profit before tax climbed drastically by 120.95%, indicating a revival in the insurance industry's economy to Kshs 12.13 billion in 2021 from Kshs 5.49 billion in 2020.

The study aimed to determine the impact of other factors on economic growth, and it was discovered that the economic performance in the last five years had a favorable effect on the following economic growth.

5.4 Recommendations

According to the study's findings several recommendations can be made:

To make sure that the services provided to clients by the sales and customer care professionals are valuable and are carried out in the best way possible, the Association of Kenya Insurers (AKI) must inform its members about the best training options. Call centers and well-trained customer service agents who work around-the-clock can enhance customer service.

Given the severe skills deficit that exists, developing a pool of qualified local insurance experts is crucial for the expansion of the insurance industry in Kenya. Therefore, the policymakers and regulators who play a big role in the insurance industry should serve as catalysts for the advancement of professional knowledge. Regulators may think about reducing periodic regulatory fees in order to support a portion of the training expenditure as an incentive. Customized training courses should be set up. Regulators must make sure that there is provision of training programs to inform the market about these relatively new items in a nation where need for insurance products is developing quickly.

Businesses and companies should be encouraged to increase employee knowledge. Therefore, regulators should enforce budgets and staff training opportunities to force businesses to play a more active role in enhancing the competence of their personnel. To guarantee these businesses are complying, the regulator would inspect these programs. The policymakers should also mandate that young children learn about insurance at the primary school level in order to raise awareness and build capacity and to establish a culture that will encourage increased purchase of insurance goods. This will expand future insurance product depth and improve product accessibility.

To maximize value for their members and potential customers, insurance companies should assure optimum product pricing and sales promotion. To ensure that their services are available even in the most rural corners of the nation, insurance companies must work hard and effectively. To eliminate the myths surrounding insurance policies and payments, all industry participants should organize educational events for the general public.

By using these organizations to coordinate regulatory consultation efforts or by implementing industry standards that are supported by associations, regulators should highlight the importance of the sector as a whole. To promote public trust in insurance services, the Insurance Regulatory Authority (IRA) should enforce laws on compensation. A fair level field would be guaranteed and unethical tactics would be eradicated from the industry with proper regulation. In order to protect the clients from fraud, it is also necessary to establish responsible insurance operations through strict regulation.

This study demonstrates that insurance premiums have a positive impact on economic growth, which can be linked to the idea that premium money is invested, resulting in capital accumulation. As a result, this study suggests that the insurance industry engage in securing more favorable policy conditions and creating more desirable goods, which will draw in more customers and raise premiums. The Kenyan government should also focus on other elements that influence economic growth, such as raising levels of savings and investments within the nation, as these elements boost economic growth.

5.5 Limitations of the study

A significant problem is establishing the legitimacy of the information gathered, particularly from the numerous sources sampled, as it is frequently challenging to do so. Another thing to note about this is how significantly the information has altered, making it appear jumbled up and indifferent to the scenario at hand.

5.6 Further studies suggestions

The study suggests that in order to analyze this relationship and compare it to findings in the insurance industry, in-depth research should be conducted on the link between economic growth and financial deepening of other financial services industries, such as cooperative organizations. This is due to the fact that a significant portion of the population has access to Savings and Credit Cooperative Societies (SACCOs), which have seen tremendous development.

Additional research should be done to determine the causes of Kenya's low rate of insurance service uptake. The benefits of providing excellent customer service and raising public awareness must be understood by insurance brokers. There is hence a need for additional research to determine the extent of insurance consumption in Kenya using different insurance comparison techniques.

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