

**EFFECT OF SELECTED STAKE HOLDER FACTORS ON PERSISTENCY OF
ORDINARY LIFE ASSURANCE POLICIES IN KENYA**

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**A Research Report Submitted to the Graduate School in Partial Fulfillment of the
Requirement for the Degree of Masters in Business Administration of Egerton
University**

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DECLARATION AND RECOMMEDATION

Declaration

This research report is my original work and has not been submitted for examination to any institution for the ward of diploma, degree or any other certificate.

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Recommedation

This report has been submitted for examination with my approval as the University Supervisor

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DEDICATION

This work is dedicated to my wife Dr. Josephine Mulindi, my Mother Mrs. Sussy Teyie and to my late sister Doreen Andika.

ACKNOWLEDGEMENT

My gratitude goes firstly to the almighty God for his grace and the gift of life granted to enable me come this far. Secondly my gratitude goes to Egerton University for giving me an opportunity to scale these heights. Thirdly, Dr. Justus Tari, my supervisor who has been patient and has spent time reading through subsequent drafts that has given shape to this work. Dr. Henry Kombo who laid my foundation in academic research. Dr. Josephine Mulindi, for her inspiration. There are many more to whom I feel indebted to, for in one way or another they have assisted me in prayers and encouragement during the study. Wherever you are, kindly note that your contribution is acknowledged and may God bless you.

ABSTRACT

It is the expectations of good corporate governance that the managers take stock of the risks their respective businesses are exposed to so as to put in place both preventive and control measures. In light of this, there is a wide spread customer dissatisfaction in the life assurance subsector on account of persistency as brought to the fore by the persistency rates posted by the Insurance Regulatory Authority (IRA,2016). This is partly due to the fact that the reputation of the industry has been eroded over the years as a result of both perceived and actual malpractices. This study was anchored on the postulate that a critical understanding of factors that affect persistency is indispensable in life assurance subsector. These factors were grouped into three broad categories namely: underwriter factors; intermediary factors; and policyholder factors. Empirical analyses of how these factors individually and collectively affect persistency are useful not only in understanding the complex concept of persistency but also in predicting the likelihood of lapsation. The study focused on the life assurance companies since they are considered to be better placed to understand the causes of lapsation. A structured questionnaire for the collection of quantitative data was presented to 47 respondents being 24 underwriting managers and 23 marketing managers of life underwriters in Kenya. The main statistical procedures for the analysis of quantitative data were descriptive statistics such as frequency distribution and percentages and dispersions. Inferential analysis was carried out using correlation analysis and regression analysis. Correlation analysis was employed to establish the relationship that exists between independent variable and the dependent variable. The study found that that underwriter factors have no significant effect on persistency of ordinary life assurance policies in Kenya. In addition, the study revealed that intermediary factors have no significant effect on persistency of ordinary life assurance policies in Kenya. The study established that policyholders factors have a statistically positive effect on persistency of ordinary life assurance policies in Kenya. Also, the study found that underwriter, intermediary and policyholder factors jointly have a significant effect on persistency of ordinary life assurance policies. However, while policyholders factors significant affect persistency of ordinary life assurance policies, Underwriter and intermediary factors have no significant effect. The study recommends that since customers for Individual life assurance policies come from different sectors of the economy and get income at different times of the year, insurance companies should provide monthly, quarterly, bi-annual and annual premiums for their customers. In addition, insurance companies should focus on professional certificates, experience, ethical conduct and customer service training in the selection and vetting of intermediaries. In addition, insurance companies should provide training on intermediaries, at least twice in a year, on customer service and ethical conduct. Further, insurance companies should categorize their customers as per their demographic characteristics and offer individual life assurance policies that are affordable and convenient. In addition, insurance companies should embark on campaigns to increase awareness on Individual life assurance policies among clients.

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LIST OF ABBREVIATIONS AND ACRONYMS

AKI- Association of Kenya Insurers

ARDL- Autoregressive-Distributed Lag

IRA- Insurance Regulatory Authority

IRDA- Insurance Regulatory and Development Authority

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The life assurance industry has gone through several periods of transformation instigated by changes in consumer needs. Life assurance as a concept can be traced to the ancient days of Roman Collegial. The medieval guilds imposed special dues on their members and the amounts thus collected were paid to dependents of deceased members. However, life assurance as practised began in the US in the late 1760s when the Presbyterian Synods in Philadelphia and New York created the corporation for relief of the poor and distressed widows and children of Presbyterian Ministers. Subsequently, the Episcopalian priest organized a similar fund in 1769, and between 1787 and 1837, a number of life assurance companies were started although a number of them did not survive (Black and Skipper, 2005).

In general terms, life assurance is a way of dealing with risk and a saving medium for consumers. It also plays important psychological and social roles. As Hofstede (1995 cited in Makau, 2013) stated, the major function of life assurance is to protect against financial loss from loss of human life. Besides covering the risk of death, it also covers the risks of disability and critical illness. It can therefore be argued that the purpose of life assurance is to provide peace of mind by assuring that financial loss or hardship will be lessened or eliminated in the event of the insured person's death or incapacitation or critical illness. Masinga (2005) posits that life assurance provides cover to an individual policyholder against ill health, disability, premature death and financial stability in old age.

Ordinary life assurance policies are of many variations but they can be grouped into three main types as outlined by George (2003). The three types according to the author are Term insurance, Whole life insurance and Endowment insurance. Term assurance offers a specified amount of life insurance protection for a specified time period. It provides protection for mortality risk within a given period of time. Term life insurance is the simplest type of life insurance (George 2003). In case the policyholder passes on while the policy is still in force, the company will pay the face value of the policy. But if he/she outlives the duration of the

contract, the policy expires and nothing is paid. It is among the less costly forms of life insurance being offered in numerous varieties.

Whole life assurance policy is a permanent policy which offers security for a lifetime. It pays the recipient anytime death happens. Premiums may be paid for a specific period or throughout the life time of the assured. On the other hand, endowment assurance policies are basically savings contracts that contain pure protection components such that a certain specified sum of money is paid either at the expiry of the term or the death of the policyholder, whichever comes first.

Policy lapsation is primarily the result of policyholders either voluntarily or involuntarily failing to remit their periodic premiums when they fall due (Subashini & Velmurugan, 2015). This may largely be attributed to among other factors, poor sales practices as well as poor customer service. Insurers calculate persistency in two ways. The first is to calculate persistency on a cumulative balance basis, whereby the insurer uses a given year as a base year (Vankayalapati, 2017). For instance, suppose an insurer issued 10,000 policies in a given year. Out of the 10,000 policies, say 2,000 are terminated during the first year, and then the persistency for that portfolio will be 80%. If a further 2,000 policies are not renewed after the second year, the persistency will drop to 60%. If after 3 years, the only policies in force are 5,000, then the persistency for that period will be 50%. This is on the account that the first year is used as the base year for these workings.

The second method of calculating persistency is called, reducing balance. Here, persistency is calculated on the basis of the preceding year as opposed to the base year. Using our earlier example, the 13th month persistency will still remain at 80%, but the 25th month persistency will be 75%, that is, 6,000 policies out of 8,000 policies. The 37th month persistency will be 83.3%. The problem with the reducing balance method is that firms with poor persistency can be shown in better light (Sane, Thomas, & Halan, 2013).

Poor persistency remains a key issue to life assurance industry. Most insurance companies in Kenya have some form of customer retention programs in place but these measures have had little impact on the persistency question. This is because most of these programs have focused more on reactionary rather than proactive measures that address the real drivers of persistency. One of the programmes put in place by a number of insurance companies is a

“claw-back” program. Under this program, the commissions paid to the intermediary are recalled by the insurer upon the lapsation of the specific life assurance policy. The clawback clause help insurers recover a part or all of the commission paid to agents if the policy was cancelled within a given period.

The challenge with this approach is that it considers the intermediary as the sole driver of persistency. The approach assumes that the reason the policy lapsed is a result of misselling on the part of the intermediary (Sane et al., 2013). Keeping in mind that there are many other causes of poor persistency, then, this approach becomes counterproductive.

The other strategy employed by insurers is the development of single premium policies. Here, the insured does not pay periodic premiums but pays one premium to cover the entire insurance period. Employment of this strategy has had a low uptake from the market due to the fact that not many potential life assurance policyholders in developing countries have sufficient lump sum amounts that can be set aside for the purpose of life assurance. Another strategy that has been effectively employed by insurers is the use of automated premium remittance method (Vankayalapati, 2017). Using this method, premiums are deducted on specific dates at source. This source can either be from the policyholder's salary or from the policyholder's bank account. These strategies are insufficient because the focus is limited in scope as portrayed by the literature. This therefore means that the life assurance persistency question will not be addressed conclusively without interrogating the factors brought forth by the three key players in the life assurance supply chain, namely; the underwriters, the intermediaries as well as the policyholders (Limra, 2012).

1.1.1 Persistency

Persistency in life assurance refers to the proportion of an insurance company's already written policies remaining in force without lapsing or being replaced by policies of other insurers. This therefore means that when working out the persistency rate in life business, the focus is on the number of policies in force against those that were issued.. According to the global standards, minimum persistency rate for policies in the first year is 90%, 85% in the second year and 80% in the third year.

Persistency has been a difficult issue for life insurers across the world, as it can result in increased pressure on revenue and reduced profitability. While life insurance companies have taken various initiatives to reduce lapsation rates, customer persistency towards insurers

continues to be a deep-seated concern with no quick fix solution. It is a complex issue dictated by a combination of factors. Some of these include the macroeconomic environment, product design, policy size, age and gender of policyholder at time of purchase, mode and method of payment, policy duration, interaction with the insurer, relationship with the agent, and current life value of the policyholder.

1.1.2 Factors Affecting Persistency of Ordinary Life Assurance Policies

Several issues have been identified as underlying the poor persistence of life assurance policies in Kenya, and world in general. There is awareness of insurance in general among the insurable population but a large proportion lack a proper understanding of what insurance is and the impact it may have. Most of the already insured respondents cited a lack of interest in reading policy documents especially if a claim does not occur at all (Agar, 1980).

The insurance industry is affected by the persistent poor public image which has caused distrust among potential customers (Chandran, 2004). This is due to lack of structured branding initiatives and the reliance on intermediaries who may shift their negative image to the insurance companies they represent and to the industry as a whole. The financial market is flooded with unique innovations in the financial services sector. However, the insurance services are progressing at a slower pace in terms of new products, mode of payment or target markets, thus leading to the perception that the products are not unique or modern (Diacon, Carter, 1984). There is a low product differentiation where insurance companies are perceived to be using products designed for other markets and applying them to the Kenyan markets without significant adaptation to the local environment (Mutiga, 1999). Further, there is inadequate differentiation between products from different insurance companies, making it difficult for consumers to distinguish between competitor offerings in terms of product features, customer service, staff competence, and channel or promotion strategy. Customer satisfaction: according to Katz (1960) the standards of service delivery among many insurance companies are still low and the focus on the customer has not yet been embraced fully in the industry as it has in the competing financial services. Customer satisfaction therefore has remained low. In addition, there is less focus on brand development, management and measurement (Severin, and Tankard, 1997). This lack of focus on building brand awareness, perceived quality, brand associations and brand loyalty means that

insurance products in Kenya have a high commoditization level which leads to low emotional appeal.

These factors among others can be attributed to the main stakeholders in the insurance industry. These are; the life underwriters, the intermediaries, the policyholders and lastly the regulator, which in essence is the government.

1.1.3 The Insurance Sector in Kenya

The history of the development of commercial insurance in Kenya dates back to the colonial period where Kenya was colonized by the British. The colonial powers sought to extend the operations of their home companies into their newly acquired territories. This started as agency offices which later became branches and eventually grew into fully fledged insurance companies (Makau, 2013). With this development, there was need to regulate the insurance industry and this led to the enactment of the insurance Act Cap 487 that came into effect in 1987. Over the years, the Act has been amended to align Kenya's insurance industry to the global standards. By the end of 2016, the insurance industry in Kenya had grown with a wide range of players in the market that include, Insurance companies, reinsurance companies, insurance brokers, insurance investigators, motor assessors, loss adjustors, risk managers, insurance agents and banc assurance insurance agents (IRA, 2017). The banc assurance model entails the insurance companies partnering with banks and other financial institutions as third parties to distribute their insurance products. This is on the strength that these institutions have a wide network of customers who are potential consumers of insurance products.

1.2 Statement of the Problem

The insurance industry in Kenya has great potential for growth. Such growth is highly dependent on the efficiency of the key players in terms mitigating any forms of market failure, (Kabiru, 2012). For this to be realized, quality of information, market practice and quality of services offered remain key decisive factors. Insurers as well as intermediaries have a responsibility of ensuring a high persistency ratio of life assurance policies. The financial impact of poor persistency is significant to all the stakeholders in the insurance industry. It adversely affects the policyholder, the insurer, and the agent. For the policyholder, it not only means forfeiture of premiums paid but also loss of protection. For the insurer, the cost of acquisition is not fully recovered. For the agent, it means loss of

renewal commission. Implied in this argument is that low persistency of life assurance policies can be disruptive for the life insurance industry at large. Considering the importance of insurance as a risk management tool, the present day magnitude of lapsation in both public and private sector companies and the impact of lapsation on all parties necessitates the need for study to assist better policy making.

Association of Kenya Insurers annual financial report (AKI, 2017) report on these figures reveals a worrying trend in the Kenyan life assurance sub-sector. The persistency figures for year 2014, year 2015 and year 2016 with year 2014 being a base year were 77%, 57%, and 51% respectively, against the world's standards, benchmarked at 90% the first year, 85% the second year and 80% the third year. Despite development of statistical models in understanding mortality pattern of terminated policies, there is scant literature on empirical evidence of the drivers of persistency in life assurance in Kenya, which is also an impediment to penetration of life assurance policies in Kenya. Most insurance companies have some form of customer retention programs in place but these measures have had little impact on the persistency question. This is because most of these programs have focused more on fire fighting rather than on real drivers of persistency. Customer retention programs have fallen victim to an overreliance by insurers on the hope that improving economic conditions will address issues of persistency. Much as an improved economic environment has a positive effect on persistency rate, there are other factors at play and when properly understood, customer retention programs will be tailored with these factors in mind.

This study was anchored on the postulate that a critical understanding of factors that affect persistency is indispensable in life assurance subsector. These factors can be grouped into three broad categories namely: underwriter factors; intermediary factors; and policyholder factors. Empirical analyses of how these factors individually and collectively affect persistency are useful not only in understanding the complex concept of persistency but also in predicting the likelihood of lapsation. The study focused especially on the supply side of the equation, that is, life insurance providers since they are considered to be better placed to understand the causes of lapsation. Fang (2012) carried out a study on the role of income, health and bequest in determining the lapse rates. Roman (2014) focused on income and unemployment as a driver of persistency. This study therefore aimed to assess the factors that affect persistency of ordinary life assurance policies in Kenya.

1.3 Objectives of the Study

The general objective of this study was to establish the factors affecting persistency of Individual life assurance policies in Kenya. The study was guided by the following specific objectives.

- i) To assess the underwriter factors affecting persistency of ordinary life assurance policies.
- ii) To assess intermediary factors affecting to persistency of ordinary life assurance policies
- iii) To assess the policyholder factors affecting to persistency of ordinary life assurance policies.
- iv) To assess the joint effect of underwriter, intermediary and policyholder factors affecting persistency of ordinary life assurance policies.

1.4 Research Hypotheses

H0₁: Underwriter factors do not have a significant effect on persistency of ordinary life assurance policies.

H0₂: Intermediary factors do not have a significant effect on persistency of ordinary life assurance policies.

H0₃: Policyholder factors do not have a significant effect on persistency of ordinary life assurance policies.

H0₄: Underwriter, intermediary and policyholder factors jointly do not have a significant effect on persistency of ordinary life assurance policies.

1.5 Significance of the Study

As discussed earlier, the life assurances seek to provide financial protection against biometric risks at the same time providing the insured an instrument to save. The policyholder has peace of mind because the insurer will compensate as and when the need arises. Persistency ensures that the policyholder's financial future is secure and his or her family is shielded from financial ruin in case of death or incapacitation. Understanding determinants of persistency is first and foremost useful to insurers because they will be able to target their marketing activities to the market segments that are less likely to post a poor persistency results. Together with this, the insurer will appreciate the need to employ strategies that serve to increase the life assurance persistency rates in their respective firms. This study will also

help life underwriters develop new products and monitor marketing and product performance.

At a higher level, the findings of the proposed study will be directly beneficial to the government of Kenya as they can inform the process of formulating policies that govern the administration of life assurance policies. Understanding and recognizing the relationship between policy termination and survivorship in a life insurance portfolio can be of considerable importance to actuaries with pricing, reserving and risk management responsibilities and the insurance companies as a whole. At the same time, this study will be a source of knowledge to other researchers who may have an interest in this area.

1.6 Scope of the Study

This study was confined to investigating factors that affect persistency of ordinary life assurance policies in Kenya in 2018. Given the underlying need to understand why some policyholders persist while others dropout, the study was restricted to 24 marketing managers and 24 underwriting managers of the 24 life underwriters in Kenya.

1.7 Limitations of the Study

This study was limited to factors affecting persistency of ordinary life assurance policies. A number of limitations were faced in carrying out this study. The respondents were not willing to give information that they consider confidential. The researcher booked appointments with the respondents in time and assured them that the data provided will be remain confidential. Finally, the unit of analysis being the insurance firms, other players including intermediaries and the policyholders as were not considered.

1.8 Assumptions of the Study

This study was based on the following assumptions. That the population under study remained constant before and after the study. The marketing managers and the underwriting managers would be willing to disclose the reasons behind the persistency and lapse of life assurance policies.

1.9 Operational Definition of Terms

Intermediary:	This is an entity that secures insurance business on behalf of the underwriter or insurer. In Kenya, these are either insurance brokers or insurance agents
Life Assurance:	It is a contract between the insured and insurer that protects the insured against the financial loss brought about by the insured's premature death. This can take the form of group life assurance or ordinary life assurance.
Ordinary Life Assurance:	This refers to life assurance policies procured on an individual basis and consists of term assurance, whole life assurance and endowment assurance.
Persistency:	The number of a life assurance company's already written policies remaining in books without lapsing at any given time.
Product Mismatch:	The product purchased by the insured does not match the insurance needs of the insured.
Sum Assured:	The amount of money a life assurance policy guarantees to pay.
Sympathy Sales:	The insurance purchases made by insured on the basis of trying to please the intermediary other than on the basis of the insured's need.
Underwriter:	The life assurance company that carries on insurance business.
Premium:	The amount to be charged for a certain amount of insurance coverage.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents theoretical and empirical literature on persistency of individual life assurance policies. This section discusses the theory of the firm, the persistency management framework model and the findings of studies that have been done in regard to life insurance policies and causes of policy lapses.

2.2 Theoretical Literature

This section presents the theories that inform this work. This study was pegged upon the agency theory, risk theory, and the prospect theory. The use of the agency theory was based upon the relationship that exists between an agent and a principal; just as it is in the insurance industry. The risk theory was utilized in this study since the insurance industry aims at providing options that provide assurance for uncertainties and in this; there are risks that are involved. The prospect theory aimed to explain the decisions that individuals make on the basis of perceived gains and losses.

2.2.1 Agency Theory

There are many groups of stakeholders in an organisation, each with its own objectives. Agency theory was first conceived by Ross (1973) and Mitnick (1973), who independently developed economic theory of agency and the institutional theory of agency respectively. However, the economic perspective has become more prevalent. It is also noted that the basic concepts underlying these approaches are similar. Indeed, the approaches can be seen as complementary in their uses of similar concepts under different assumptions (Hillier, Grinblatt & Titman, 2011). The theory suggests a divergence in interests between the principal and the agent and this develops into an agency conflict. Owing to the fact that one group mandated by law is responsible for taking decisions on behalf of others, conflicts are bound to arise. In a firm, the dominant agency relationship is between the owners of the firm and the management. The directors of a company make strategic decisions on behalf of its shareholders, whilst delegating operational decisions to managers. This separation of ownership and management can lead to principal-agent problems and agency costs if the interests of the owners and managers diverge.

In an agency relationship, one party, called the agent, makes decisions and acts on behalf of another, called the principal. Agency relationships are a common phenomenon in financial management, due to the nature of the industry. When one person manages another person's financial affairs, an agency relationship exists by default. Conflicts of interest may arise between the principal and the agent. Often, the principal may be concerned at the possibility of being exploited by the agent and the principal may choose not to enter into a given transaction at all, when it would have been mutually beneficial: a suboptimal outcome that can lower welfare overall.

On the other hand, the managers instead of focusing on wealth maximization of an organization may have their focus strained on other satisfying ventures that may include sales maximization at the expense of profit maximization. Thus, the theory suggests that the managers who are agents may be involved in activities that are aimed at serving personal interest at the expense of the interests of the owners of the organization. At the same time, where the life assurance agent focuses on getting as much commissions as possible at the expense of both the life assured and the underwriter, cases of product mismatch, churning and twisting are likely to arise. All this will have an effect on the persistency of life assurance policies for the any underwriter. To address such a conflict, the theory suggests, that owners can constrain management's ability to maximize personal utility by establishing contracts that minimizes the divergence in interests in exchange for a level of salary and benefits to management that is greater than what owner-managers would grant them if they were in control of the firm (Shi, Connelly & Hoskisson, 2016).

2.2.2 Risk Theory

Risk theory attempts to explain the decisions people make when they are faced with uncertainty about the future. Typically, a situation in which risk theory may be applied involves a number of possible states of the world, a number of possible decisions and an outcome for each combination of state and decision. The theory predicts a decision according to the distribution of outcomes it will produce. The theory is important for people who make decisions whose success hinges on the way the risks in the world turn out. For instance, life underwriters, whose success depends on predicting the frequency and magnitude of claims, use risk theory to help determine their optimum exposure to risks (Grandell, 1991).

Any decision people make about the future must take into account a certain amount of uncertainty. In some cases, like the decision to invest in a company that may default, the uncertainty affects the price the investor is willing to pay. In others, uncertainty can make the difference between whether or not a person should take an action at all. Those cases are the ones in which risk theory is used.

A key factor that affects the premiums charged by the life assurance underwriters is the risk associated with policy lapses. This means that if the projected overall persistency in a given life assurance market is low, then the costs arising from risks associated with lapses are factored in by the actuaries when determining the premium to be charged. This will lead to variations in the amount of premiums being charged on the basis of the target market (Kaas, Goovaerts, Dhaene and Denuit, 2001).

The theory as applied to the life assurance policyholders implies that policyholders are financially rational and risk neutral. They act optimally in terms of maximizing the terminal value of their investment. This may therefore mean that such a risk neutral policyholder will initiate or take up a life assurance cover with the hope that he or she will get the maximum value of his or her investment. However, this risk neutral policyholder may surrender a life assurance policy when he ascertains that the surrender value of the policy exceeds the continuation value of the same policy.

2.2.3 Prospect Theory

This theory is also referred to as loss aversion theory. The theory holds that people value gains and losses differently and, as such, will base decisions on perceived gains rather than perceived losses (Barberis, Huang, Santos, 2001). Thus, if a person were to be given two equal choices, one expressed in terms of possible gains and the other in possible losses, most people would choose the former, that is, a choice expressed in terms of gains. To demonstrate, say one investor was presented with the same life assurance product by two different financial advisors. The first tells the investor or the prospective policyholder that the policy in question has had an average return of 5% in terms of reversionary bonus over the past five years. The second advisor tells the investor or prospective policyholder that the same policy in question has seen above-average returns in the past 10 years but has been declining in recent years (Barberis, Huang, and Santos, 2001). According to prospect theory, even though

the investor is presented with the same insurance policy, he or she is more likely to buy the policy from the first advisor, who expressed the rate of return as an overall 5% gain, rather a combination of both high returns and losses.

With this theory in mind, the life assurance underwriters with the aim of maximizing profits by way of selling as many policies as possible will influence their would be customers' buying decision by focusing the customers' mind on the possible gains as opposed to possible losses. This psychological game may at some point during the tenancy or the term of the policy, come to an end especially when the policyholders realize that the returns on their policies are declining. This may have adverse effects due to policy cancellations (Ebert & Strack, 2012).

Poor persistency is a reflection of customer dissatisfaction. Happy and satisfied customers are keen to continue doing business with the company. It is easier and more profitable to maintain customers that are already in the books than attracting new ones. This therefore means that customer retention is a key profit driver for any organization including insurance companies. Customer retention in life assurance business referred to as persistency is key to the profitability of life assurance firms.

2.3 Empirical Literature

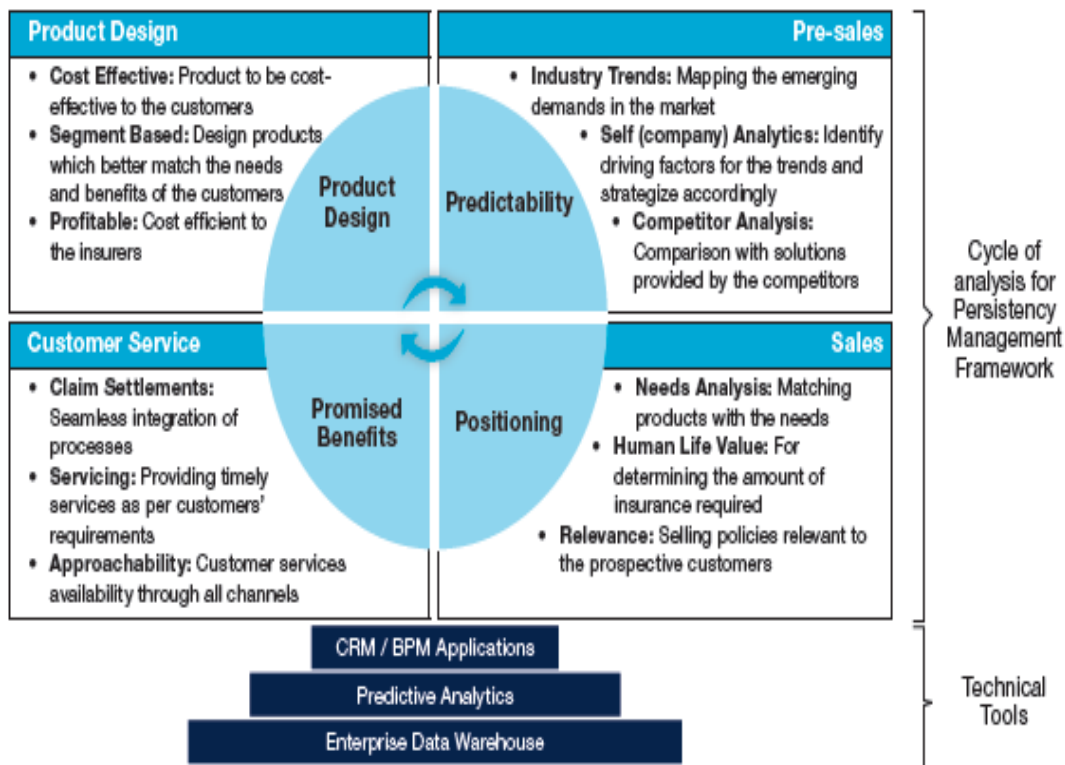
This section presents empirical literature on factors affecting persistency of ordinary life assurance policies. Studies done by other researches reveal that persistency of ordinary life assurance policies are not only a function of product design attributed to underwriter factors but intermediaries as well as customers. These factors shall be discussed under three main categories, namely; Underwriter factors, Intermediary factors and policyholder factors.

2.3.1 Persistency Management Framework

The model holds that customer retention is critical to any insurance business – equally as important as new policy sales. While new policy sales are often achieved through expensive marketing and business development costs, retaining existing customers offers a more profitable avenue for returns. Considering the challenges in policy management and maintaining persistency, Capgemini (2012) introduces a framework that can help improve customer service standards in an effort to retain existing policyholders. Insurers would also be able to proactively identify potential cancellations or premium defaults which, in turn, can

improve profitability. The persistency management framework is directed toward the life insurance industry. When used accordingly, it can result in better overall strategy and planning, and lead to optimal persistency rates. By helping life insurers make informed quantitative decisions by providing strategic insights into the causes of lapsation, the persistency management framework can help insurers: focus on generating profits, not simply revenues, by identifying potential losses in advance, identify key factors in the life insurance business that influence customers' intentions of paying premiums and their decisions to continue or discontinue their policies, generate a significant outlook toward proactively identifying potential cancellations and premium default.

Persistency Management Framework



Source: Capgemini Analysis (2012)

The roots of this framework start by acquiring customers through the product design stage, whereby insurers design products that are cost effective for customers and cost efficient for the insurer (Whitwell, 2003). It extends to the analysis process, which includes analysis of prevalent industry trends and competitor analysis to strategize toward safeguarding the insurer's command in the industry. To succeed, marketers must pay close attention to the trends and developments in market and make timely adjustments to their marketing strategies (McDonald, 2005). The framework further requires the sales department to conduct a needs analysis to position the right product with the right customers. Human life value is another criterion which the sales department needs to consider when making a relevant sale.

Once a sale is made, the customer service department is responsible for providing a high level of service to customers during various levels of interaction. Favorable after-sales service leaves a positive impression of the firm and also leads to a highly satisfying customer experience. If representatives of an insurer are easily approachable throughout various departments, the insurer enjoys a differential advantage over other insurance firms, which do not leave such an impression. The more channels a customer can access with a consistently positive experience, the better the chances of high overall customer satisfaction (Kortler, 2012). Insurance firms can leverage this framework to realize an increase in business productivity by identifying potential lapses. A balance of customer satisfaction and company profitability is important for the success of the business.

Much as this frame work covers a number of aspects in relation to life assurance policy persistency, there are specific concerns especially intermediary factors that the framework is not alive to. This includes, churning, rebating and twisting which may have a significant contribution to the persistency question.

2.3.2 Underwriter Factors and Persistency of Ordinary Life Assurance Policies

Underwriting is the process through which life assurers assess risk and ensure that cost of cover and risk faced by concerned individuals are proportionate (Macedo, 2009). An underwriter is therefore a professional with the ability to understand the risks that underwritten objects are exposed to. In light of this, the underwriter shall refer to life assurance companies. Insurance companies in general have realized that the more products a customer buys, the greater the chance the customer will persist. Mwangi

(2016) argues that insurance transformation will be more about understanding the customer and less about capital levels. There is a need to put the customer at the core of what insurers do, understand what they are looking for and know how to please them. Insurance products are largely the same. The only thing that will make one company stand out from another is the level of service delivery. How you make customers feel determines how they feel about your product hence the need to create an emotional connection (Kotler & Keller, 2012). There is a need to put the customer at the core of what insurers do, understand what they are looking for and know how to please them. Insurance products are largely the same. The only thing that will make one company stand out from another is the level of service delivery. How you make customers feel determines how they feel about your product hence the need to create an emotional connection. This requires creating a portfolio of products that work together to complement each other, retain customers, and enhance relevance (Grant, 1998). These portfolios must appear as tightly integrated from the consumer's point of view. Understanding the interplay between products and why customers purchase them is key to being able to price packages competitively and gain market advantage. Persistency measurement provides a basis for measuring the interaction between products. When combined with retention and pricing models, it can help health plans predict and measure the impact of consumer behavior on the top and bottom line.

Since general recognition of the marketing principle that keeping customers is more profitable than attracting new customers (Tajudeen et al, 1997), many companies have adopted relationship marketing (Fournier et al., 1998). In relationship marketing, managers strive to develop and maintain successful customer relationships (Morgan and Hunt, 1994). Consumer satisfaction is defined by Fournier and Glenn (1999) as the confirmation of pre-consumption product standards. Krishnan et al (1999) commented that "the basic argument is that satisfied customers of a firm decide to stay with the firm for future business. It is natural therefore to suggest that the persistency of business can be regarded as an indicator of customer satisfaction. High lapse rates, particularly after one year, may indicate a low level of customer satisfaction with the product.

Historically, intermediaries have been treated as the insurer's primary customer with minimal efforts to actively engage with the real customer. This has resulted in the insurer being slow not only in recognizing but also responding to the consumer's needs, (Oliver, 2014).

Insurance clients take up insurance policies with the expectation that should there be a claim, it will be compensated. In this respect, the ultimate test for every underwriter in the eyes of the policyholder is the underwriter's ability not only to pay claims when they arise but to pay the same promptly. This is premised on the understanding that the insurer at the point of taking on the risk was satisfied and that the quality and versatility of the information disclosed by the policyholder or the intermediary was true (Kabiru, 2012). Failure to pay claims coupled with unnecessary bureaucratic processes towards claim settlement work as a disincentive to the claimants who may opt out of an already running policy leading to the lapsation of the policy. Kuloba, (2012). asserts that, perception that insurance companies do not give compensation at all being higher among teachers aged 18-31 while the perception that insurance compensation is complicated is higher among teachers above 50 years. This perception may encourage those already enrolled to cancel their policies hence reducing the overall persistency.

However, this perception may be far from the truth. The onus of claim intimation is on the life assured or a named beneficiary in the event the life assured is lost. Although family members are required to notify an insurance company upon the death of a policyholder, this seldom happens as it is estimated more than 25% of policy benefits are not paid on death of the insured. This arises mainly because heirs often aren't aware a policy exists, or don't know how to find it, (Kabiru 2012).

Kyong et al (2010) looked at ownership of the underwriter as a driver of persistency. The study revealed that the foreign owned insurers posted a higher persistency in Korea than domestic insurers. The study attributed this to foreign insurers being more profit-focused than local life assurance companies. A consumer survey conducted by the U.K. insurance regulator reported that the policy type with the highest withdrawal rate (mortgage endowments) also had the highest proportion of policyholders saying they regretted taking out the product hence a high lapse rate. Product types or groups are also considered by, Cerchiara et al. (2009), and Milhaud et al. (2010). The results indicate that term life insurance has higher lapse rates than endowment policies and unit-linked products suffer the most lapses. Supplementary cover contracts including supplementary cover such as disability insurance, exhibit higher lapse rates than contracts without those additional covers. On the other hand, the premium for policies including additional cover is higher than for stand-alone

policies. In case of financial distress, it is more likely that a policyholder is forced to lapse such a product bundle. This implies that the insurer's failure to re-assess as to whether the products, that is, the insurance policies are designed focussing on the changing customer needs (Oliver, 2014).

Life assurance is a long term business and underwriting profits are only realised normally from seventh year (Mboya, 2013). It is therefore important that measures be put in place to ensure that premiums are received up to these years. The mode and the premium paying methods allowed by the underwriter have a bearing on the persistency equation. The policyholder may pay the periodical premiums through automated instruments that include, direct debit from the bank; salary deductions from the policyholder's pay point or may opt for non-automated premium payment modes that include make cash payments or use of mobile money cash transfers. Automated modes of premium payment support a higher rate of persistency as opposed to non-automated modes. Default rates are close to nil under check-off and even where they occur, recovery is assured since it is easy to make reference and correct. This is a sure way of ensuring regular payments. Milhaud et al. (2010) analysed the relationship between method of premium payment and lapse rates. They do not only distinguish single and regular premiums, but further break down regular premiums into monthly, bimonthly, quarterly, semi-annual, and annual instalments. The findings indicate that the lapse rate is smallest for single premium business, while it is largest for bimonthly payments followed by annual payments. Underwriters engage intermediaries on contract basis and remuneration is by way of commissions whose rate is higher in the first policy and reduces considerably over the ensuing years. There is therefore a disincentive for intermediary on this front to continue servicing the policyholder beyond the first year which might lead to the policy lapsing. In addition, the aspect of frontloading the commissions as opposed to a flat commission structure may prompt the intermediary to churn (Vankayalapati,2017). Therefore the structure of intermediary engagement has a bearing on the persistency levels.

2.3.3 Intermediary Factors and Persistency of Ordinary Life Assurance Policies

Insurers use a multiple of channels to distribute their products and services to different consumer segments. These distribution channels are referred to as insurance intermediaries which include; insurance agents, insurance brokers, and medical insurance providers assisting

and representing an insurer in any of the following: Soliciting, negotiating, procuring or effectuating an insurance contract or its renewal. Disseminating information relating to coverage or rates. Forwarding an insurance application. Servicing a contract and delivering an insurance policy. Transacting a matter after effectuation of a contract. Representing a matter after effectuation of a contract including claims handling. Representing or assisting an insurer or other person in any other manner in the transaction of an insurance contract (IRA, 2011). Intermediaries play an important role in the insurance chain such as distribution, underwriting and claims settlement. Intermediaries have a position of trust between the policyholder and insurer. An insurance agent as an intermediary is therefore a key contact point between a customer and an insurance company; ideally, they assist the client (purchaser) to find a policy which most suits both their needs and income, (Oino 2011). Insurance in Kenya is mainly sourced through agents, brokers or directly by insurance companies. In 2016, 46.3% of the total industry premium was sourced through insurance agents, 37.5% through insurance brokers and 16.2% directly (AKI, 2017) . Nearly 84% of life assurance policy sales are procured through the intermediaries, namely insurance brokers and insurance agents. This therefore means that the intermediaries play a key role not only in the procurement of sales but in are a good point of focus when it comes to the persistency question.

Kuhlemeyer and Allen (1999) found out that consumer satisfaction with life insurance products is largely accounted for by the trust they repose in the sales agents in contrast to those who purchase direct from the insurance companies. The surveyed population who purchased from sales agents were more satisfied with the insurance industry than those who purchased directly from insurance companies. This apparently justifies the view held earlier by Pritchett *et al.* (1996) that ‘insurance is sold rather than bought.’

An insurance contract is a contract of utmost good faith (Marwa, 2007). Potential and existing Policyholders should have access to all material and relevant information before the conclusion of an insurance contract, to receive advice in a correct and meaningful manner in assessing their insurance requirements, to be informed about their rights and obligations for the duration of the contract, to be confident that they will receive correct and timely compensation in the event of a legitimate claim and in case of doubt to be able to receive supplementary advice and where necessary from a neutral body. This is also a consumer’s fundamental right as enshrined in Article 46 of the Constitution of the Republic of Kenya.

This applies not only to the underwriters and the proposers but to the intermediaries as well. According to the Insurance Act Cap 487, the intermediary shall ensure that; Customers are appropriately informed before and at the point of sale to ensure that they make informed decisions before entering into a contract; Information provided should be clear, fair and truthful.

Product information should be provided in writing or any other durable medium; Product features disclosed shall among others include the name of the insurer, type of insurance contract on offer including benefits, premium, period for which the premium is payable and consequences of late or non-payment of premiums. Tajudeen et al (2009) observes that clear and precise information must be passed to the prospective policyholders especially when dealing with bundled policies. Where a product is a bundled product, the premium for each benefit (both main and supplementary) shall be disclosed separately; The type and level of charges to be deducted from or added to the quoted premium shall be disclosed; A description of the risk covered by the insurance product and any excluded risks shall be disclosed; Where the intermediary fails to be transparent when negotiating a life assurance policy contract, the insured may stop further remittances of premium on realising that material facts surrounding the cover to be effected were not disclosed by the intermediary at the point of negotiating the cover. The cancellation will lead to a drop in the persistency levels. Makau (2013) cites lack of professionalism as a source of customer dissatisfaction in the insurance industry. Low level of professionalism exhibited by the intermediaries is a factor of concern. The effect of low level of professionalism comes to the fore through product mismatch.

Life assurance underwriters use different distribution channels including tied agents, brokers, and banks, among others, to sell their policies. The persistency rates for policies procured through banks are low. This is attributed to short term sales targets that bankers focus on as opposed to tied agents whose focus is on long term customer relation (Trigo 2008). At the same time, a number of bank assurance agents have a very limited understanding of the life assurance products they are selling. The probability of misselling is high and their customer care skills are wanting in light of insurance business. This means that customer complaints are not adequately addressed and this explains why we have a higher lapse rate from that distribution channel as opposed to other distribution channels. In addition, part-time

involvement of agent services occurs when the agent treats insurance selling work as a secondary activity - while primarily engaged as a student, professional or salaried employee or as a self-employed worker. As a consequence, the agent is unable to spare much time with which to serve the customer. This can be interpreted as lack of proper after-sales service, which may lead to the lapsation of policies (Subashini & Velmurugan, 2015).

Kabiru, (2012) cites inconsistent deductions as one of the reasons for low persistency. This is attributed to the fact that the intermediary alters the premium to be deducted, in that the policy premium amounts deducted from the source or the bank are different from the ones advised during application for cover. This as well leads to policy cancellations hence low persistency. It is observed that the persistency rates for brokers are higher (Eckardt 2010). This is attributed to the fact that they are considered as professionals hence the chances of misselling are minimal.

Every purchase of a life assurance policy corresponds to the perceived need of the purchaser. If the product purchased does not match the need of the purchaser, then there is a likely hood that the insured will rescind his or her purchase decision and terminate the policy. In addition, other intermediaries rebate, meaning, paying of the first premium on behalf of the proposer as an inducement to get the client started hoping that the policyholder will proceed to remit the ensuing premiums. In such a case, the policyholder may not necessarily be ready for the insurance cover and may fail to remit further premiums as they fall due. This will definitely lead to the policy lapsing hence affecting the persistency negatively.

In some instances, the intermediary, in order to meet his or her sales quota, may appeal to his or her friends and relatives to procure a life assurance policy. In such circumstances, the purchase decision is not premised on the need for a life assurance policy, but on the need to support their own. Policies procured under such circumstances are bound to lapse as there isn't sufficient incentive to the insured to keep them running. Poor persistency may as well be attributed to 'Churning' where the sales person persuades an already existing policyholder to withdraw from an existing life assurance contract in order to switch underwriters. In such a case, the persistency problem cannot attributed to poor sales quality of the original cover issued, but to unethical practices by the intermediary canvassing for the new business, Diacon and O'Brien, (2002).

2.3.4 Policyholder Factors and Persistency of Ordinary Life Assurance Policies

Applying for a life assurance policy requires the disclosure of multiple aspects of an insured's personal history. For the underwriter to properly assess the financial risk posed by the insured, information that would otherwise be considered private and confidential must be revealed in order for proper and accurate analysis to be conducted. This information may include, but not limited to; medical history, family history, criminal history, occupation, location, assets and liabilities. The company will use this information to help understand the profile of individual customers or of its customers as a whole, for marketing and product development purposes. This information sought brings to the fore the policyholder factors that could be have a bearing on the persistency of the proposed life assurance policy.

A number of studies have confirmed that income levels are strong, positive and have statistically major influence on the market for life insurance policies. This includes: Ayaliew (2013), Li and Moshirian (2007). A change in the individual policyholder's economic status may have an effect in the policyholder's ability to sustain a given premium level. Job loses, and even the types of employment have a bearing on the persistency equation. This means that a high unemployment rate led to high policy lapsation. He, therefore, concludes that economic conditions are a contributing factor to life assurance policy persistency. Fang et al (2012) alludes to this fact on the ground that the customers' insufficient income due to inflation, change of job, poor financial planning are all part of economic conditions that have an effect on persistency of ordinary life assurance policies. Using ARDL model by Persan et al (2001), to examine relationship between surrender behaviour and its determinants, Ching Chung Hue in his study in the United States market found out that there is an inverse relationship between unemployment and life assurance policy persistency.

Diacon & O'Brien, (2002) observed that withdrawal rates of life assurance policies were high among the low income earners as opposed to the high income earners. Another study done by Roman and Sirak (2014) in Germany reveals that income and unemployment have an effect on life assurance policy persistency. High income is associated with lower probability of lapse and low income can be associated with high probability of lapse or rather low persistency. Yang and Goodenow (2010), carried out persistency studies in Korea and the results indicate that during the global economic turmoil in 2008, the lapse rates of life assurance policies went up, thereby confirming that there is an inverse relationship between

macro-economic conditions and the life assurance lapse rate. In his study, Wayne (2010) confirms that macro-economic factors are as well key players on the persistency question. The findings reveal a positive correlation between unemployment and policy lapse rate.

The policyholder age is also considered as one of the factors that affect persistency Milhaud et al., (2010). However, the modelling approach differs. Cerchiara et al. (2009) considered the current policyholder age while all other studies focus on the underwriting age of the policyholder, that is, age of the policyholder at policy inception. Moreover, the considered range of age values differs across studies. The results of the existing studies are consistent as all find decreasing lapse rates with increasing policyholder age (group). Nikolai (2014) posits that males who are at the same time smokers have higher lapse rates firstly to non-smokers than their female counterparts.

The customers' level of awareness regarding personal risks and a poor understanding of the policy provisions have a bearing on the persistency of life assurance policies. Victor Willy, (2013), contents that there is indeed a very low level of awareness as regards to insurance policies especially among the rural population in Kenya. This means that where a customer signs for a life assurance policy without understanding the policy provisions, the probability of lapsing the policy is higher as opposed to the one with a good understanding of the policy provisions. Additionally, Pinquet et al. (2011) believe that customers' insufficient knowledge of insurance products can cause lapse.

Product bundles including insurance covers which are not necessary might be more often sold to customers being not that familiar with insurance matters. Due to the usually higher premium of such contracts, those are more likely to lapse afterward when the customer discovers that the product bundle does not fit the policyholder's needs. Finally, the product bundle might include unnecessary or duplicate insurance coverage. As supplementary covers often cannot be lapsed separately, the customer might decide to lapse the entire contract. Kyong (2010) posits that the much as there isn't much difference between the persistency rate for males and females in the United States, female policyholders' persistency was slightly lower than that of their male counterparts.

2.3.5 Regulatory Framework and Persistency

Just like any other industry in a given economy, the government through the insurance regulatory authority has an obligation to ensure that the players in the insurance industry play by the rules. The Insurance Regulatory Authority (IRA), a state corporation's with the mandate to supervise, regulate and develop the insurance industry in Kenya. A central information problem that insurance consumers face is judging product quality due to the complexity of the contract, the contingent nature of many of the services provided (e.g. claims handling and payments) and the fact that services may be provided over time. As a result, product quality is difficult to ascertain prior to purchase hence the need for regulatory oversight given implication of a consumer driven market and intermediation. Poor persistency can cause far-reaching losses to society as a whole. The insurance sector is the sole investor in almost every field where investment for building infrastructure is required. Banks, insurance companies and stock markets are the three avenues through which most people tend to invest. This money is used for nation-building and contributes to the nation's economy. Policy lapsation can cause a serious investment miscalculation, leading to a drag on the economic policy of a country and putting the future of nation-building and the country's progress at stake (Vankayalapati, 2014).

2.3.6 Ordinary Life Assurance and Persistency

Discussions around challenges affecting life insurance companies are often focused on issues affecting new business generation. This may include regulatory issues, economy, religion, among others. However, this does not guarantee profitability if a high persistency rate is not achieved. Life underwriters and actuaries across the globe have been grappling with issue of persistency since the inception of life insurance business. Persistency in life assurance business is of tremendous importance not only to the insurance company but to the agent as well as the policy holders. High early terminations of the policy frequently results in heavy losses to the company and are one of the major causes of dissatisfaction among the life assurance policy holders (Bauer et al., 2006).

Life assurance is developed on the concept of human life value (Sayin, 2003). Human life value approach focuses on the economic component of human life. Any event affecting an individual's earning capacity has an impact on the individual's human life value. This event may be premature death, incapacity, retirement or unemployment (Black and Skipper, 2000).

The human life value concept provides the philosophical basis for the life assurance, which is a product designed to protect the individual against two distinct risks: premature death and superannuation (Browne and Kim, 1993). Thus, while death is not a risk, the time of death is a risk. For most people, death at any age may be considered premature when one dies before adequate preparation has been made for future financial requirements of dependants. Life assurance thus becomes the mechanism for one to ensure a continuous stream of income to the beneficiaries (Black and Skipper, 2000). In this regard, life assurance may be regarded as a saving medium, financial investment, or a way of dealing with risks (Omar and Owusu-Frimpong, 2006). Evidently, the concept of life assurance has been redefined to broaden its scope beyond the original focus on only death. Parameters such as total and permanent disability, savings and investment are currently covered.

According to Ackah and Owusu (2012), life assurance contracts were initially designed to address two contingencies, namely, the risk of dying too early and secondly the risk of living too long. In both instances, there is an ever-present risk of either loss of income or discontinuity of income. In the first instance where there is the risk of dying too early, the contract provides for death benefits. In the second instance where the risk is living for too long, the insurance arrangement will provide for either lump sum payment upon attainment of a certain age or annuity payments. For a long time, life assurance companies churned out products that addressed the uncertainty of dying. This was made possible through the elements of risk pooling and risk transfer. Over time, there has been a significant change to the environment of life assurance and other financial markets. The industry has had no choice but to respond with numerous changes in the product mix.

Ordinary life assurance can be categorised into three main categories as identified in actuarial literature (Black and Skipper, 2000) namely: Whole life insurance which provides a death benefit for lifetime; term life insurance that provide a death benefit for a limited number of years; and, endowment life insurance which is a term life insurance with a saving component.

Term life assurance offers a specified amount of life insurance protection for a specified time period. The accessible policy maturity periods for this policy are one year, five years, ten years and fifteen years. It provides protection for mortality risk within a given period of time. Term life insurance is the simplest type of life insurance (George, 2003). In case the

policyholder dies while the policy is still in force, the company will pay the face value of the policy. But if he/she outlives the duration of the contract, the policy expires and nothing is paid. It is among the less costly forms of life insurance being offered in numerous varieties. Term assurance is typically purchased as a means of temporary protection or when an individual cannot afford the cost of other forms of life assurance (Marwa, 2007). George (2003) stresses that the policies can be renewed for additional periods without evidence of insurability, a product referred to as a renewable term policy. The premium is increased at each renewal.

Whole life assurance is a permanent life assurance policy which offers security for a lifetime. It pays the recipient anytime death happens, "Till death do us part" is the policy's pledge. George (2003) outlined two main types as Ordinary Life and Limited-Payment Life Insurance. Ordinary Life Insurance (sometimes known as straight life or continuous premium whole life) offers lifetime security till one is hundred years with a high degree of death claims.

Endowment assurance policies are basically savings contracts that contain pure protection components. This implies that endowment assurance is a policy that pays the face amount of life assurance if the insured dies within the specified period. At the same time, if the insured survives to the end of the endowment period, the face amount is paid to the policy owner plus the bonuses accrued if it was a participating policy. (Willey, 2001) decompose this section into empirical literature.

Policy persistency is an important phenomenon in life insurance markets. Lapses may be the source of customer dissatisfaction. Satisfied customers generally want to continue to do business with the company. Customer retention is a key profit driver for any business organisation, and especially for an insurance company. Repeat custom is much cheaper and more profitable than attracting new customers. Both LIMRA and Society of Actuaries contents that a policy lapses if its premium is not paid by the end of a specified time, often called the grace period. The IRDA have recommended a uniform grace period of 30 days for annual, half yearly and quarterly modes, and 15 days for monthly modes, (Vankayalapati, 2017). This uniform grace period has been adopted by the IRA in Kenya as well. A policy should be considered lapsed if the premium is not paid within the grace period.

The life assurance industry uses persistency which means, the measure of how long a policy or a block of policies remains in force to monitor its marketing and service quality. The higher the persistency rate that is, the number of policies in force at the end of a given year, divided by the number of policies in force at the beginning of that year, the higher the product performance. Generally, there are two approaches to calculating persistency. This may be quantified either in terms of the number of lives exposed or the amount of benefit exposed. Firstly, an underwriter may choose to focus on premium volume to calculate her persistency rate. That means that the total amount of premium for the policies in force divided by the amount of premiums for the policies issued during a period under investigation.

Secondly, persistency rate may be calculated on the basis of the number of policies. This means that the number of policies in force at the end of a given period is divided by the number of policies in force at the beginning of the period in question, (Vankayalapati, 2017). This study will adopt the second method of calculating the persistency rate, where the number of policies will be considered as opposed to the premium volume. In addition, as previously discussed, the study will not focus on persistency calculated on reducing balance basis but on a cumulative balance basis, whereby the insurer uses a given year as a base year.

Poor persistency has a negative impact not only to the insurance company, but to intermediaries as well as to policyholders and other stakeholders. If a life assurance policy is taken out to cover the risk of the life of an insured, with the lapsation of the policy the coverage of such risk ceases. With such a cessation the immediate family becomes insecure and at a loss. Apart from losing the family protection, the policyholder also loses a portion of the savings, most likely accumulated with considerable effort over a period of time. The insured would also be losing the benefit of returns from alternate investments elsewhere. Intermediaries will suffer loss of commissions as well as persistency bonuses that may accrue to them.

2.4 Summary of the Literature and Knowledge Gaps

The insurance business is increasingly becoming more customer-centric. Changing customer preferences along with the evolution of dynamic channels and environments has made it mandatory for insurers to design products and services that match customer expectations. Using various analytical tools to predict and understand key drivers which impact customers' premium-paying behavior is imperative to survive in the fast-changing and very competitive

insurance industry. A persistency management plan can operate to everyone's benefit, by bringing all the stakeholders together to meet their respective needs.

Specific challenges in the life insurance industry relate to a high number of withdrawals; low life expectancy; negative perceptions regarding the industry; lack of management experience and insurance skills; and the lack of transparency of charges on savings-type products. Negative public perception comes out strongly as a key challenge to the penetration of life insurance services in Kenya which currently stands at less than 1% according to Microfinance Africa (2010).

While the several studies reviewed in this chapter have dealt with the relationship between insurance and economic development and the identification of factors affecting persistency in other economies, minimal studies have been dedicated to public persistency on life ordinary life assurance policies in Kenya and actually no studies available to the researcher have been found dealing exclusively with the determinants of persistency of life assurance policies in Kenya. This study hence sought to fill this gap in research by investigating the factors affecting persistency of ordinary life assurance policies in Kenya.

2.5 Conceptual Framework

Below is the the conceptual framework for the effects of selected stakeholder factors on persistency of ordinary life assurance policies adopted for this study.

Independent Variable

Dependent Variable

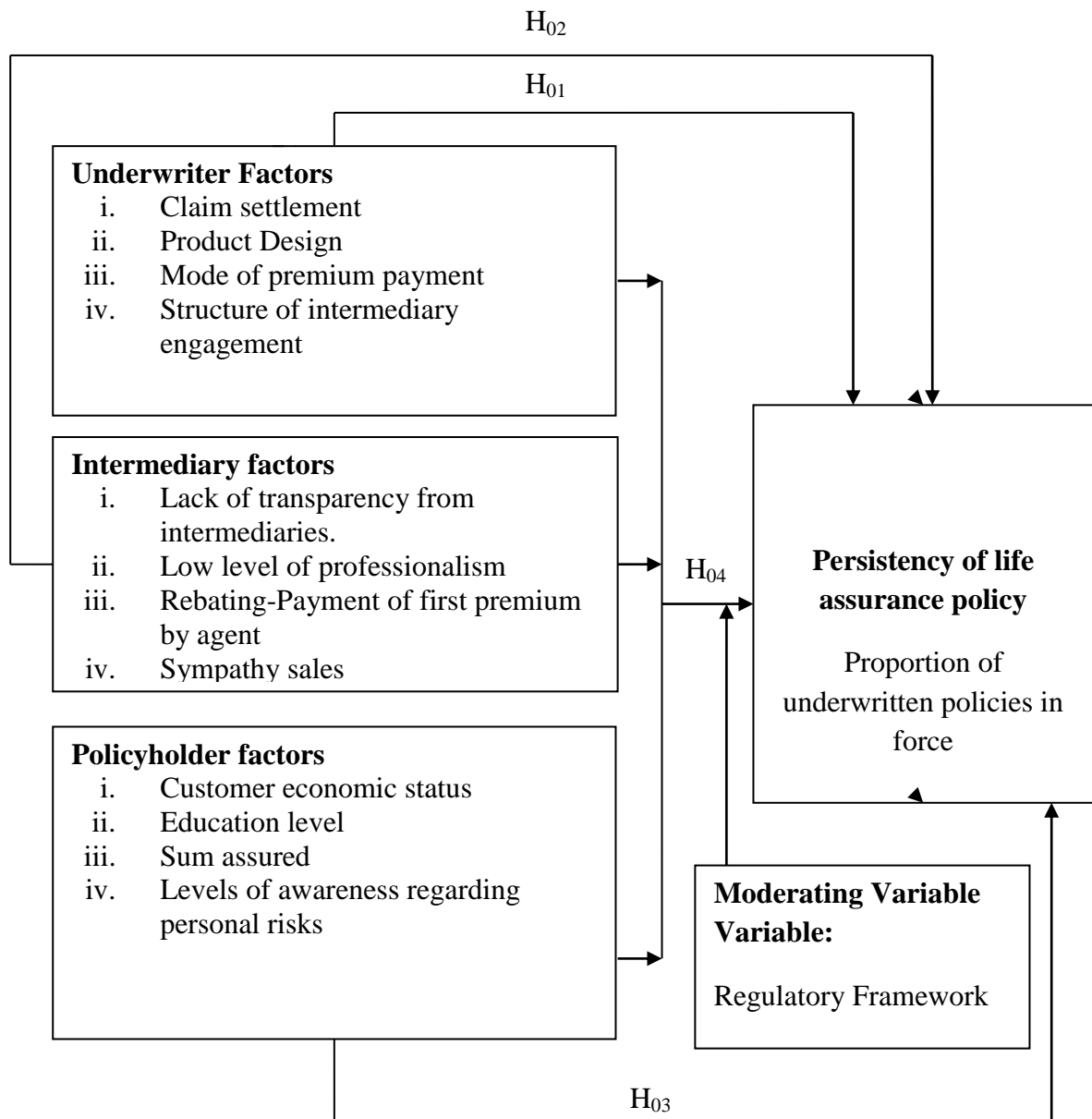


Figure 2. 1: Conceptual framework for the analysis of factors associated with persistency

According to Figure 2.1, independent variables are represented by selected stakeholder factors of persistency which are; Underwriter factors, Intermediary factors and policyholder factors. The dependent variable is the persistency of ordinary life assurance policies. The persistency of life assurance policy is dependent on the persistency functions. For instance, the uptake of life assurance policy is dependent on the policyholder's education level. Insurance regulatory framework in Kenya continue to become more closely aligned with international best practice. The regulatory authority has put in place steps to enhance or implement risk-sensitive and economic-based solvency regulation regimes. The measures put in place may have an effect on the relationship between the independent and dependent variables. In view of the above, the regulatory framework influence was held constant.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design, location of the study, target population, sample and the sampling procedure, research instruments data collection procedure and data analysis that will be used in the study.

3.2 Research Design

The study adopted a descriptive survey design. Lockesh (1984) notes that descriptive studies are designed to obtain pertinent and precise information concerning the current status of phenomenon and wherever possible to draw valid general conclusions from the facts obtained. According to Best and Kahn (1993), descriptive research is also concerned with conditions or relationships that exist, practices that prevail, beliefs, points of view or attitudes that are held by people, processes that are going on, effects that are being felt or trends that are developing. It is mainly concerned with the current state of affairs in relation to preceding events that have had an influence on the present condition. This design was used for the study because it seeks to establish and bring to the fore the reasons behind the current persistency rates in respect to life assurance policies in Kenya.

3.3 Target population

The study sought to assess factors affecting persistency of ordinary life assurance policies in Kenya. 48 officials from the 24 life assurance companies in Kenya were targeted for the study. Given the nature of this study, data was collected from all the twenty four underwriting managers and twenty three marketing managers.

3.4 Location of Study

The study was carried out among life assurance companies in Kenya. This was done in Nairobi County being the headquarters of the life underwriters. However, it should be noted that the data collected was a reflection of life assurance policy persistency situation in the country.

3.6 Research Instruments

The method adopted for the study was largely quantitative and included face to face administering of the questionnaire. The study used a structured questionnaire in the collection of primary data with life assurance managers in charge of policy conservation as the main respondents. This tool was structured and aimed at obtaining information from respondents in a direct and open manner. Shao (1999) points out that a questionnaire may be structured, consisting of direct questions to obtain factual data, or indirect (semi – structured). This allows more flexibility on the part of the interviewer in setting questions in an indirect manner, or probing for answers.

The instrument was divided into four sections. The first section covered background characteristics of the insurance company while the other sections each covered one of the three main objectives of the study. A five point Likert scale was used to collect the data. A Likert scale is a series of questions that ask the respondent to select a rating on a scale that ranges from one extreme to another. The scale ranged from (one) being a strong disapproval and (five) being a strong approval.

3.7 Validity and Reliability of the Instruments

Mugenda and Mugenda (2003) define validity as the accuracy and meaningfulness of inferences, which are based on the research results. The two also define reliability as a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Validity and reliability was thus established for standardization of the research instrument used in the current study. Content validity of the research instruments was established in order to make sure that they reflect the content of the study concepts. First, the researcher went through the instruments and compared them with the set objectives to ensure that they contained all the information that answer the set questions and address the objectives. Second, expert input from the supervisors and authorities in the area of study was sought to scrutinize the relevance of the items on the instruments against the set objectives.

Reliability of the data collection tools was tested using the Cronbach reliability coefficient. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are in a group. The theoretical value of alpha denoted as α , varies from 0 to 1. According to Gay (1992), coefficient of 0.70 is considered adequate for the instruments to be

adopted for study. The coefficient of 0.7 or over reflects the internal reliability of the instruments (Fraenkel & Wallen, 2000). Before conducting the actual study, the questionnaire was first tested through a pilot study among selected life assurance companies in Nakuru Town. Piloting was essential in eliminating ambiguity in question items, establishing problems in administering the instruments, testing data collection instructions, establishing the feasibility of the study, anticipating and amending any logical and procedural difficulties regarding the study, and allowing preliminary data analysis. From the reliability test results as shown in Table 3.1, underwriter factors had a Cronbach's alpha of 0.844, intermediary factors had a Cronbach's alpha of 0.872, policyholder factors had a Cronbach's alpha of 0.754 and persistency of ordinary life assurance policies had a Cronbach's alpha of 0.760. In all the variables, a Cronbach's alpha of 0.7 and above was attained. This confirmed that the research's instrument was deemed reliable to be used in this study.

Table 3. 1: Cronbach's Alpha of Variables

Variable	Cronbach's Alpha	Items
Underwriter Factors	0.844	11
Intermediary Factors	0.872	9
Policyholder Factors	0.754	11
Persistency of Ordinary Life Assurance Policies	0.824	4

3.8 Data Collection Procedure

The researcher sought a letter of introduction from the Director of graduate school, Egerton University that facilitated the acquisition of a research permit for data collection from the National Commission of Science, Technology and Innovation. The researcher called the respondents and booked appointments and then proceeded to visit them at their place of work. The questionnaire was then administered to the respective respondents who filled the questionnaires and handed them back to the researcher.

3.9 Data Analysis and Presentation

Data collected was coded, cleaned and analysed using Statistical Package for Social Sciences (SPSS) version 21 to facilitate addressing the research objectives and questions. This was done using both descriptive and inferential statistical tools. Descriptive statistics used

included percentages, frequencies, means and standard deviation. Findings were presented using tables, graphs and charts.

Inferential analysis was carried out using correlation analysis and regression analysis. Correlation analysis was employed to establish the relationship that exists between independent variable and the dependent variable. Regression analysis was used to show how underwriter factors, intermediary factors and policyholder factors influence persistency of ordinary life assurance policies in Kenya.

$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + \varepsilon \dots\dots\dots$$

Where: Y =Persistency of ordinary life assurance policy.

x_1 = Underwriter factors associated with persistency of ordinary life policies in Kenya

x_2 = Intermediary factors associated with persistency of ordinary life policies in Kenya.

x_3 = Policyholder factors associated with persistency of ordinary life policies in Kenya.

ε = Error term

b_0 = Constant Term;

$B_1, B_2,$ and B_3 = Beta coefficients;

3.10 Ethical Considerations

Clearance was sought from Egerton University before the data collection exercise began. Additionally, a data collection permit was obtained from the National Commission of Science, Technology and innovation.

All data was handled confidentially, and the respondents did not provide their names on the questionnaires. The names of the insurance companies were also not disclosed because of the sensitive nature of the study. This is because the life assurance firms may be uneasy to publicly disclose the rates of lapse as they consider such information as confidential and may have a negative impact on their business.

CHAPTER FOUR

RESEARCH RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the data that was obtained from the field. The purpose of the study was to investigate the factors affecting persistency of ordinary life assurance policies in Kenya. The variables investigated included underwriter factors, intermediary factors, and policyholder factors. The chapter discusses the background information of the respondents, analysis, interpretation and presentation of the findings on the basis of the study.

4.2 Response Rate

The study targeted 48 officials from life underwriters Kenya. These officials were mainly underwriting and marketing managers. 47 questionnaires out of the targeted 48 were duly filled and returned; this was a response rate of 98%. According to Mugenda and Mugenda (2003), for analysis, a response rate of 50% is adequate; a response rate of 60% is good; a response rate of 70% and over is excellent. Therefore, a response rate of 98% was considered as excellent.

4.3 Demographic Characteristics

The study sought to understand the demographics of the respondents, which included gender, age and duration of service.

4.3.1 Gender of Respondents

Figure 4.1 below presents the results for gender of the respondents. From the findings, 62% of the respondents were male while 38% were female. This shows a great disparity between the male and female gender that works in the insurance companies.

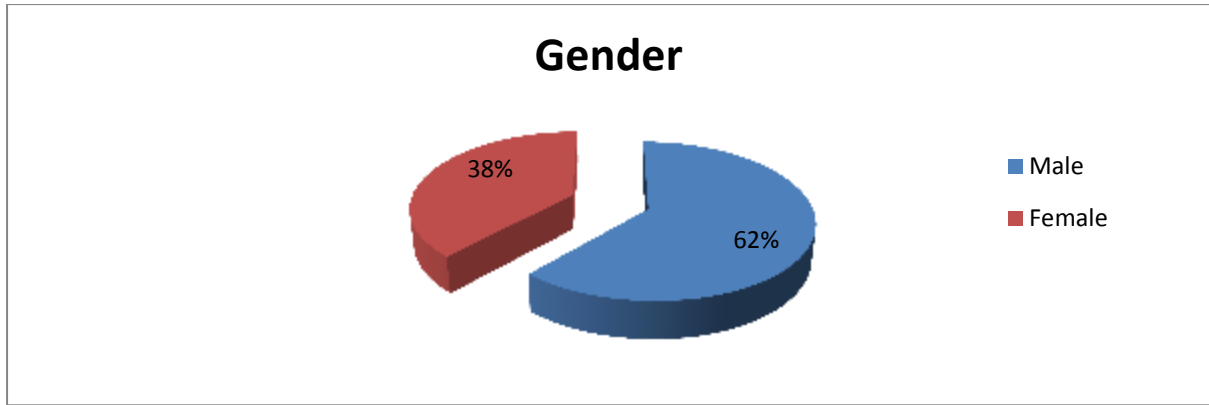


Figure 4. 1: Gender of the Respondents

4.3.2 Age of the Respondents

The table below presents the age of the respondents. From the findings, the study found out that 46.8% of the respondents were aged between the age of 29-35 years, 34.0% of the respondents were aged between 24-28 years, and 19.1% were aged between 36-51 years. Therefore, majority of the respondents were aged between 29-35 years.

Table 4. 1: Age of Respondents

Age Category	Frequency	Percent
24-28	16	34.0
29-35	22	46.8
36-51	9	19.1
Total	47	100.0

4.3.3 Duration of Service

The study sought to find out the number of years that the underwriting managers and marketing managers had served in the current position in their organizations. The results are shown in Table 4.3. The findings indicate that majority of the respondents (57.4%) had worked in the current position for 1-3 years, 34.0% of the respondents had worked in the current position for 4-6 years, and 8.5% of the respondents has worked in the current position for 7-13 years. This indicates that the respondents had been in their current position for a number of years which is a positive for this study as the responses provided are from a point of good experience and knowledge in the organization.

Table 4. 2: Number of Years in Current Position

Years	Frequency	Percent
1-3	27	57.4
4-6	16	34.0
7-13	4	8.5
Total	47	100.0

4.4 Underwriter Factors

The first objective of the study was to assess the underwriter factors affecting persistency of ordinary life assurance policies. The respondents were asked to indicate the degree to which they agreed with statements on underwriter factors on a five-point Likert Scale. The scale ranged from (one) being a strong disapproval and (five) being a strong approval. Table 4.4 below presents results for the underwriter factors in terms of means and standard deviations of the variables.

The respondents agreed that bureaucracies in claim settlement have an effect on policy cancellations with a mean of 3.49. A mean of 3.79 showed that the respondents affirmed that failure to pay claims is also an underwriting factor. The study sought to understand whether different periods that premium payment is paid- monthly, quarterly, annual and bi-annual- exhibit higher persistency. The findings show that the respondents opined that monthly premium payment mode exhibit higher persistency with a mean of 3.66; a mean of 3.68 indicated that the respondents agreed that quarterly premium paying mode exhibit higher persistency, with a mean of 3.62 the respondents agreed that bi annual premium paying mode exhibits higher persistence, also, a mean of 3.72 indicated that the respondents' view on annual premium paying mode exhibit higher persistency. It is also evident that the respondents believed that annual premium paying mode exhibit higher persistency. This finding is supported by the study done by Milhaud et al. (2010) who reported that annual premium paying mode exhibits higher persistency.

There was need to understand if different premium payment modes exhibit high lapse rates. The findings indicate that with a mean of 3.26 respondents were indifferent that premium payment by cash methods exhibit high lapse rates, a mean of 2.26 showed the respondent disagreed that premiums paid by checkoff exhibit high lapse rates, the respondents also disagreed that premiums paid by bank standing orders exhibit high lapse rates as indicated by a mean of 2.98. A mean of 3.30 showed that the respondents were neutral on premiums paid through mobile cash transfer exhibit a high lapse rate. There was a strong agreement (4.11)

that new product development curbs lapse rates. The results indicated that $4.11 \leq \text{Mean} \leq 2.26$ meaning that new product development curbs lapse rates while there are no high lapse rates when premiums are paid through checkoffs.

Table 4. 3: Underwriter Factors

Underwriter Factors	N	Mean	Std. Deviation
Claim settlement bureaucracies' effect on on policy cancellations	47	3.45	.775
Failure to pay claims effect on persistency of ordinary life assurance policies	47	3.79	.907
Monthly premium payment mode effect on persistency	47	3.66	.962
Quarterly premium paying mode effect on persistency	47	3.68	1.002
Bi-Annual premium paying mode effect on persistency	47	3.62	1.074
Annual premium paying mode effect on persistency	47	3.72	1.117
Effect of premium payment by cash methods on lapse rates	47	3.26	1.188
Effect of premium payment by checkoff payment method on lapse rates	47	2.26	1.073
Effect of premiums payment through the bank standing orders on lapse rates	47	2.98	.944
Effect on premium payment via mobile cash transfer on lapse rate.	47	3.30	1.214
New product's development effect on lapse rates	47	4.11	1.026
Average	47	3.43	

4.5 Intermediary Factors

According to the second objective, the study sought to understand how intermediary factors affect persistency of ordinary life assurance policies. The respondents were asked to indicate the degree to which they agreed with statements on intermediary factors on a five-point Likert Scale. The scale ranged from (one) being a strong disapproval and (five) being a strong approval. The findings were recorded in Table 4.5 below.

On intermediary factors, a mean of 3.77 indicated that the respondents agreed that intermediaries with professional certificates have high persistency levels. Also, a mean of 4.17 indicated that respondents agreed that more experienced intermediaries post better persistency than the less experienced ones. Additionally, the respondents agreed that ethical conduct of the intermediary contributes to persistency by a mean of 4.19. This is in line with

the study by Diacon and O'Brien (2002) which revealed that unethical conduct such canvassing can be problematic for persistency.

On rebating, a mean of 3.94 indicated the respondents viewed that rebating of premiums by the intermediaries leads to poor persistency. The respondents, by a mean of 3.96, agreed that sympathy sales lead to high lapse rates. Additionally, by a mean of 4.32 the respondents strongly agreed that product mismatch leads to policy cancellations. Makau (2013) cites that product mismatch is a sign of lack of professionalism and this leads to policy cancellations. A mean of 4.15 indicated an agreement that failure to keep in touch with customers leads to high lapse rates; likewise, a mean of 4.15 indicated an agreement that failure to remind customers on the premium due date leads to high lapse rates. On selling of insurance on part time basis, a mean of 3.43 showed that the respondents were indifferent that intermediaries selling insurance on part time basis have a poor persistency. Therefore, it was indicated that $4.32 \leq \text{Mean} \leq 3.43$ meaning that product mismatch does lead to policy cancellation while selling insurance on part time basis leads to poor persistency.

Table 4. 4: Intermediary Factors

Intermediary Factors	N	Mean	Std. Deviation
Effect of professional certificates on persistency levels	47	3.77	.698
Effect of experience on persistency.	47	4.17	.564
Effect of intermediary's ethical conduct on persistency	47	4.19	.613
Effect of rebating of premiums by the intermediaries on persistency	47	3.94	.763
Effect of sympathy sales on lapse rates	47	3.96	.908
Effect of product mismatch on policy cancellations	47	4.32	.515
Effect of poor sales service by the intermediary on persistency	47	4.15	.659
Effect of failure to remind the customers on due dates on policy persistency.	47	4.15	.691
Effect of part time intermediaries on persistency.	47	3.43	1.156
Average	47	4.01	

4.6 Policyholders Factors

The third objective of the study focused on how policyholders factors affect persistency of ordinary life assurance policies. The respondents were asked to indicate the degree to which they agreed with statements on policyholders factors on a five-point Likert Scale. The scale

ranged from (one) being a strong disapproval and (five) being a strong approval. The findings were recorded in Table 4.6 and they indicated that $4.00 \leq \text{Mean} \leq 2.13$.

Concerning policyholders' factors, demographics of the policyholders was deemed as an integral part of this study. On age of the policyholders, a mean of 3.51 showed that the respondents agreed that policyholders' entry age is a factor that determines persistency. Cerchiara et al. (2009) focused on age of the policyholder at policy inception. The study found out that age was a determinant in persistency. Further, the study suggested that decreasing lapse rates were affected by increasing policyholder age (group). On education, a mean of 3.83 showed that the respondents agreed that policyholders with post-secondary education have a high persistency. On gender, a mean of 3.11 shows that the respondents were indifferent that male policyholders have a higher lapse rate as compared to female policyholders. Occupation of the policyholders was also found to have an effect on persistency by a mean of 3.79 agreeing that the occupation of the policyholders have an effect on persistency.

The respondents, by a mean of 4.00 strongly agreed that awareness levels of policyholders regarding personal risk leads to high persistency. On employment basis of the policyholders, the study found out that a mean of 3.45 indicated that the respondents agreed that policyholders employed by government have high persistency rates. For those employed by private companies, the study found out that with a mean of 3.06, of the respondents were neutral that policyholders employed by private companies have a high persistency rate.

The study also indicated that by a mean of 2.13 the respondents disagreed that policyholders who are self-employed have high persistency rates. On income, a mean of 3.70 indicated agreement that low income earners are more likely to lapse their policies than the high income earners. Also, the respondents were neutral that policyholders with sum assured of less than Kshs. 500,000 are more prone to lapse than those those above Kshs. 500,000 with a mean of 3.38. The respondents, by a mean of 3.79, agreed that change of physical location of the policyholder increases the chances of lapsing the policy

Table 4. 5: Policyholders Factors

Policyholders Factors	N	Mean	Std. Deviation
Effect of policyholder entry age on persistency.	47	3.51	.930
Effect of the policyholder's level of education on persistency.	47	3.83	.816
Effect of policyholder's awareness levels of personal risks on persistency.	47	4.00	.626
Effect of employment by the government on persistency.	47	3.45	.951
Effect of employment by private companies on persistency.	47	3.06	.919
Effect of self-employment on persistency.	47	2.13	.797
Effect of income levels on persistency.	47	3.70	.657
Effect of the sum assured on persistency.	47	3.38	.874
Effect of change of physical location of the policy holder on persistency.	47	3.13	.900
Effect of gender on persistency.	47	3.11	1.184
Effect of the policy holder's occupation on persistency.	47	3.79	.883
Average	47	3.37	

4.7 Persistency of Ordinary Life Assurance Policies

This study's dependent variable was persistency. The questionnaire presented questions on persistency indicating the degree to which they agreed with statements on persistency on a five-point Likert Scale. The scale ranged from (one) being a strong disapproval and (five) being a strong approval. The findings were recorded in Table 4.7 and they indicated that $3.30 \leq \text{Mean} \leq 2.04$ below.

On persistence, a mean of 2.04 indicated that the respondents disagreed that the overall persistency for their life book is above 80%, a mean of 3.21 showed that the respondents were of the opinion that the persistency for term assurance is above 80%, and a mean of 2.94 indicates that the respondents disagreed that the persistency for whole life assurance is above 80%. Finally, there was an indication (3.30) that the respondents were indifferent that the persistency for endowment assurance is above 80%.

Table 4. 6: Persistency of Ordinary Life Assurance Policies

Persistency	N	Mean	Std. Deviation
The overall persistency for our life book is above 80%	47	2.04	1.334
The persistency for term assurance is above 80%	47	3.21	.806
The persistency for whole life assurance above 80%	47	2.94	.818
The persistency for endowment assurance is above 80%	47	3.30	.931
Average	47	2.90	

4.8 Correlations

The study sought to understand the relationship between the independent variables which were underwriter factors, intermediary factors and policyholder factors; and the dependent variables which is persistency. A Pearson Correlation test with a 2-tailed test of significance was conducted to identify the direction of the variables' linear relationship and the results recorded in Table 4.7.

From the correlation analysis results, underwriter factors have no significant effect on persistency of ordinary life assurance policies in Kenya as shown by a correlation coefficient - 0.016. The effect was considered insignificant because the p-value (0.914) was more than the significance level (0.05). The correlation results show that intermediary factors have no significant effect on persistency of ordinary life assurance policies in Kenya as shown by a correlation coefficient of 0.099. The p-value (0.507) was more than the significance level (0.05) and hence the effect was not significant. The results show that policyholders factors had a statistically positive effect on persistency of ordinary life assurance policies with a Pearson correlation coefficient of 0.462. The p-value (0) was less than the significance level (0.05) and hence the effect was significant.

Table 4. 7: Correlation Matrix of Underwriter factors, intermediary factors , Policyholder factors and Persistency

		Persistency	Underwriter Factors	Policyholder Factors	Intermediary Factors
Persistency	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	47			
Underwriter Factors	Pearson Correlation	-.016	1		
	Sig. (2-tailed)	.914			
	N	47	47		
Policyholder Factors	Pearson Correlation	.462**	.311*	1	
	Sig. (2-tailed)	.001	.033		
	N	47	47	47	
Intermediary Factors	Pearson Correlation	.099	.550**	.309*	1
	Sig. (2-tailed)	.507	.000	.035	
	N	47	47	47	47

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

4.8 Regression Analysis

The study used simple regression analysis for each of the independent variables and the dependent variable and a multiple regression for the joint effect of the three independent variables on the dependent variable.

4.8.1 Simple Regression

4.8.1.1 Underwriter factors

A univariate analysis was conducted to investigate the effect of underwriter factors on persistency of ordinary life assurance policies. The null hypothesis stated:

H₀1: Underwriter factors do not have a significant effect on persistency of ordinary life assurance policies.

The R-Squared is the variance proportion in the dependent variable that can be explained by the independent variable: the larger the R-squared the larger the effect of the independent

variable on the dependent variable. The R Squared can range from 0.000 to 1.000, with 1.000 showing a perfect fit that indicates that each point is on the line. The r-squared for the effect of underwriter factors on the persistency of ordinary life assurance policies was 0.0905. This shows that life bancassurance can explain 9.05% of the usage.

Table 4. 8: Model Summary for Underwriter factors and Persistency

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.0905	0.0081903	0.00821	0.35044

a. Predictors: (Constant), Underwriter factors

The analysis of variance is used to determine whether the regression model is a good fit for the data. It also gives the F-test statistics, the linear regression's F-test has the null hypothesis that there is no linear relationship between the two variables. The F-calculated (3.3696) was less than the F-critical (4.1709) and the p-value (0.200) was more than the significance level (0.05), which implies that the model is not a good fit for the data and hence cannot be used to predict the effect of underwriter factors on persistency of ordinary life assurance policies.

Table 4. 9: ANOVA for Underwriter factors and Persistency

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.249	1	7.249	3.3696	0.200
	Residual	96.807	45	2.15126		
	Total	104.056	46			

a. Dependent Variable: Persistency of ordinary life assurance policies

b. Predictors: (Constant), Underwriter factors

From the results the regression model was;

$$Y = 0.253 + 0.165X_1$$

The regression results indicate that holding the independent variable (underwriter factors,) constant, persistency of ordinary life assurance policies will have an index of 0.253. The findings also show that underwriter factors has a positive effect on persistency of ordinary life assurance policies as shown by a beta coefficient of 0.165. However, the relationship is insignificant as the P-value (0.0213) was more than the significance level (0.05). Therefore we can accept the null hypothesis that “underwriter factors do not have a significant effect on

persistency of ordinary life assurance policies”. These findings are contrary to Kuloba, (2012) findings that underwriter factors have a significant effect on persistency of ordinary life assurance policies.

Table 4. 10: Coefficients for Underwriter factors and Persistency

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.253	0.142		1.7817	0.109
1 Underwriter factors	0.165	0.136	0.155	1.2161	0.213

a. Dependent Variable: Persistency of ordinary life assurance policies

4.8.1.2 Intermediary factors

The study used a univariate analysis to investigate the effect of intermediary factors on on persistency of ordinary life assurance policies. The null hypothesis stated:

H₀2: Intermediary factors do not have a significant effect on persistency of ordinary life assurance policies.

The r-squared for the effect of intermediary factors on persistency of ordinary life assurance policies was 0.00645. This shows that intermediary factors can explain 0.645% of persistency of ordinary life assurance policies.

Table 4. 11: Model Summary for Intermediary factors and Persistency

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.0805	0.0064803	0.01821	0.344566

a. Predictors: (Constant), Intermediary factors

The F-calculated (3.3038) less than the F-critical (4.1709) and the p-value (0.000) was less than the significance level (0.05), which implies that the model is not a good fit for the data and hence can be used to predict the the effect of intermediary factors on on persistency of ordinary life assurance policies.

Table 4. 12: ANOVA for Intermediary factors and Persistency

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.111	1	7.111	3.3038	0.088
	Residual	96.856	45	2.15236		
	Total	103.967	46			

a. Dependent Variable: Persistency of ordinary life assurance policies.

b. Predictors: (Constant), Intermediary factors

From the results the regression model was;

$$Y = 0.263 + 0.148X_1$$

The regression results indicate that holding the independent variable (Intermediary factors) constant, Persistency of ordinary life assurance policies will have an index of 0.263. The findings also show that intermediary factors has a positive effect on persistency of ordinary life assurance policies as shown by a beta coefficient of 0.148. However, the p-value (0.224) was more than the significance level (0.05) and hence the effect was not significant. Therefore we can accept the null hypothesis that “intermediary factors do not have a significant effect on persistency of ordinary life assurance policies”. These findings disagree with Kuhlemeyer and Allen (1999) findings that consumer satisfaction with life insurance products is largely accounted for by the trust they repose in the sales agents in contrast to those who purchase direct from the insurance companies.

Table 4. 13: Coefficients for Intermediary factors and Persistency

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.263	0.148		1.7770	0.114
	Underwriter factors	0.148	0.129	0.155	1.1500	0.224

a. Dependent Variable: Intermediary factors

4.8.1.3 Policyholder factors

A univariate analysis was conducted to investigate the effect of policyholder factors on persistency of ordinary life assurance policies. The null hypothesis stated:

H₀₃: Policyholder factors do not have a significant effect on persistency of ordinary life assurance policies.

The r-squared for the effect of policyholder factors on persistency of ordinary life assurance policies was 0.23190. This shows that policyholder factors can explain 23.190% of the persistency of ordinary life assurance policies.

Table 4. 14: Model Summary for Policyholder factors and Persistency

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.48156	0.23190	0.76557	0.57544

a. Predictors: (Constant), Policyholder factors

The F-calculated (59.4562) was greater than the F-critical (4.1709) and the p-value (0.000) was less than the significance level (0.05), which implies that the model is a good fit for the data and hence can be used to predict the effect of policyholder factors on persistency of ordinary life assurance policies.

Table 4. 15: ANOVA for Policyholder factors and Persistency

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	17.677	1	17.6770	59.4562	0
1	Residual	13.379	45	0.2973		
	Total	31.056	46			

a. Dependent Variable: Persistency of ordinary life assurance policies

b. Predictors: (Constant), Policyholder factors

From the results the regression model was;

$$Y = 2.313 + 0.703X_1$$

The regression results indicate that holding the independent variable (Policyholder factors) constant, persistency of ordinary life assurance policies will have an index of 2.313. The findings also show that policyholder factors have a positive effect on the persistency of ordinary life assurance policies as shown by a beta coefficient of 0.703. This shows that a unit improvement in Policyholder factors would lead to improvement in the persistency of ordinary life assurance policies. The relationship is significant as the P-value (0.000) was less than the significance level (0.05). Therefore we can reject the null hypothesis that

“policyholder factors do not have a significant effect on persistency of ordinary life assurance policies”. The study findings are consistent with the findings of LIMRA (2012) that holds that the policy holder’s age at entry is a factor that influences persistency. Those policyholders aged below thirty years are more prone to lapse their life assurance policies than those above thirty years. In addition, other factors including, education level, changes in physical location, the employer, occupation and gender of the policy holders.

Table 4. 16: Coefficients for Policyholder factors and Persistency

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.313	.129		18.000	.000
	Policyholder factors	.703	.055	.916	12.735	.000

a. Dependent Variable: Persistency of ordinary life assurance policies

4.8.2 Multiple Regression Analysis

Multiple regression was conducted so as to find out whether underwriter, intermediary and policyholder factors affect persistency of ordinary life assurance policies. From the findings, the R-squared in this study was 0.244, which shows that the three independent variables (underwriter factors, policyholder factors and intermediary factors) can explain 24.4% of the variation in the dependent variable, persistency of ordinary life assurance policies. This clearly shows that other factors not considered in this study explain 75.6% of the variation in the dependent variable, persistency of ordinary life assurance policies.

Table 4. 17: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.494 ^a	.244	.191	2.053

a. Predictors: (Constant), Intermediary Factors, Policyholder Factors, Underwriter Factors

From Table 4.9, the analysis of variance in this study was used to determine whether the model is a good fit for the data. The results indicate that the model was significant since the p-value (0.000) was less than 0.05 thus the model is statistically significant in establishing the effect of underwriter factors, policyholder factors and intermediary factors on persistency of ordinary life assurance policies. Further, the F-calculated (22.4096) was found to be more

than the F-critical (2.46) which shows that the models was fit in establishing the influence of the three independent variables on the dependent variable.

Table 4. 18: Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	158.393	3	52.79766	22.4096	.007 ^b
Residual	101.309	43	2.356023		
Total	259.702	46			

a. Dependent Variable: Persistency

b. Predictors: (Constant), Intermediary Factors, Policyholder Factors, Underwriter Factors

The regression model was;

$$Y = 3.872 - 0.098X_1 + 0.383X_2 + 0.127X_3$$

H0₄: Underwriter, intermediary and policyholder factors jointly do not have a significant effect on persistency of ordinary life assurance policies.

From the regression analysis (Table 4.17) the results indicated that underwriter, intermediary and policyholder factors explain 24.4% of persistency of ordinary life assurance policies in Kenya. In addition, underwriter factors have no significant effect on persistency of ordinary life assurance policies in Kenya ($\beta=-0.098$; $P=0.212$). Moreover, intermediary factors have no significant effect on persistency of ordinary life assurance policies in Kenya ($\beta=0.127$; $p=0.087$). Further, policyholder factors have a positive significant effect on persistency of ordinary life assurance policies in Kenya ($\beta=0.383$; $p=0.001$).

These findings are consistent with the findings of Vankayalapati (2013), whose study affirms the policyholders' lack of awareness regarding personal risks leading to them neglecting these risks through policy cancellations hence low persistency. Much like a prior study done by Roman and Sirak (2014) on the effect of the policy holder's income level on persistency, this study affirms that low income earners are prone to lapse their life assurance policies more than the high income earners. Fang, (2012) further attributes a higher lapse rate from policyholders' insufficient income occasioned by unfavourable economic conditions.

Table 4. 19: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.872	3.851		1.005	0.320
Underwriter Factors	-0.098	4.037	-0.087	-0.024	0.212
Policyholder Factors	0.383	0.079	0.309	4.848	0.001
Intermediary Factors	0.127	0.872	0.109	0.146	0.087

Dependent Variable: Persistency

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter entails presentation of the summary of the findings, conclusions, recommendations as well as suggestions for further studies. Summary of the findings, conclusions as well as recommendations for further studies were based on the purpose and objectives of this study.

5.2 Summary of Findings

The study confirmed that the overall persistency of ordinary life assurance policies in Kenya is below the international standard of 80% as indicated in the AKI report of 2017. This is attributed to underwriter factors, intermediary factors and policyholder factors which have the most influence on persistency rates.

The first objective of the study was to determine underwriter factors affecting persistency of ordinary life assurance policies. The study found that underwriter factors have no significant effect on persistency of ordinary life assurance policies in Kenya, having a β coefficient of 0.165 and p value of 0.0213. With a mean of 3.79, the study found out that when bureaucracies come in to play, claim effects lead to policy cancellations. This study established that the bureaucracies in insurance companies act as a hinderance to persistence as they lengthen the period in which claims are settled. The failure to pay claims were found to have an effect on the persistency of ordinary life assurance policies. Annual premium paying mode exhibited higher persistency with a mean of 3.72. Different premium payment modes had an effect on persistency of ordinary life assurance policies. The premium payment by cash methods exhibited high lapse rates and rarely were policy holders using bank standing orders in payment of premium. With a mean of 4.11, the development of new products was seen to largely curb lapse rates.

The second objective of the study was to establish intermediary factors affecting persistency of ordinary life assurance policies. Professional certificated for intermediaries was seen to affect high persistency levels with a mean of 3.77. Experienced intermediaries were also seen to have better persistence than those who were not as experienced. The ethical conduct of intermediaries was also seen to contribute to persistency. Rebating of premiums by

intermediaries leads to poor persistency and sympathy sales leads to high lapse rates. Product mismatch was seen as a sign of lack of professionalism and leads to policy cancellations. Intermediaries who sell insurance on part time basis have a poor persistency level. With a p - value of 0.224 and β coefficient of 0.148 intermediary factors effect on persistency is not statistically significant.

The third objective was to determine the policyholder factors affecting to persistency of ordinary life assurance policies. The study found that The policyholders factors have a statistically positive effect on persistency of ordinary life assurance policies in Kenya, with a p value of 0.000 and β value 2.313. The demographics of the policyholder was proved to be important in achieving persistency. Mainly, these demographics focused on age, gender, education and occupation of policyholders which were found to have an effect on persistency of ordinary life assurance. Policyholders employed by the government were found to have high persistence rates with a mean of 3.45 as compared to those employed by private companies whose mean is 3.05 and those self-employed with a mean of 2.13. Low income earners had a more likelyhood to lapse their policies than those with high income. Policyholders with less that KSH. 500,000 of sum assured were more prone to lapse than those above KSH. 500,000. With a mean of 3.11, the change of physical location of policyholder increased the chances of lapsing of policies.

5.3 Conclusions

The study concludes that underwriter factors have no significant effect on persistency of ordinary life assurance policies in Kenya. The study found that claim settlement bureaucracies, failure to pay claims, frequency of premium (monthly, quarterly, bi-annual and annual) affect persistency of ordinary life assurance policies. Further, the mode of payment of the premium (bank standing orders, mobile cash transfer and cash methods) affect persistency of ordinary life assurance policies.

The study also concludes that intermediary factors have no significant effect on persistency of ordinary life assurance policies in Kenya. The study found that intermediary's ethical conduct, professional certificates, ethical conduct, sympathy sales, poor sales service and failure to remind the customers were intermediary factors affecting persistency of ordinary life assurance policies.

The study concludes that policyholders factors have a statistically positive effect on persistency of ordinary life assurance policies in Kenya. The study established that entry age, policyholder's level of education, policyholder's awareness levels, employment status, change of physical location, gender and policy holder's occupation were policyholder factors affecting persistency of ordinary life assurance policies.

The study concludes that underwriter, intermediary and policyholder factors jointly have a significant effect on persistency of ordinary life assurance policies. However, while policyholders factors significant affect persistency of ordinary life assurance policies, Underwriter and intermediary factors have no significant effect.

5.4 Recommendations

The study found that frequency of premium payment (Monthly, Quarterly, Bi-Annual and Annual) affects persistency of Individual life assurance policies in Kenya. Since customers for Individual life assurance policies come from different sectors of the economy and get income at different times of the year, insurance companies should provide monthly, quarterly, bi-annual and annual premiums for their customers.

The study found that intermediary factors including professional certificates, experience, ethical conduct and customer service affect persistency of Individual life assurance policies in Kenya. Therefore, insurance companies should focus on professional certificates, experience, ethical conduct and customer service training in the selection and vetting of intermediaries. In addition, insurance companies should provide training on intermediaries, at least twice in a year, on customer service and ethical conduct.

The study found that the age, gender, awareness, employment status, income levels, occupation and gender have an effect on persistency of Individual life assurance policies in Kenya. This study therefore recommends that insurance companies should categorize their customers as per their demographic characteristics and offer individual life assurance policies that are affordable and convenient. In addition, insurance companies should embark on campaigns to increase awareness on Individual life assurance policies among clients.

5.5 Suggestions for Further Research

This research study was limited to factors affecting persistency of Individual life assurance policies in Kenya. Therefore, a similar research study should be done assess othe factors affecting persistency of other lines of insurance business. At the same time, a similar study can be replicated so as to explore factors affecting persistency of ordinary life assurance policies from the view point of the policy holders and the intermediaries. In addition, the study found that underwriter, intermediary and policyholder factors could only explain 24.4% of persistency of ordinary life assurance policies in Kenya. Therefore, the stdy recommends that further studies should be conducted on other factors affecting persistency of ordinary life assurance policies in Kenya.

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APPENDIX I: LIFE UNDERWRITERS IN KENYA

1. Britam Life Insurance Company.
2. Jubilee Insurance Company.
3. ICEA Lion Assurance Company .
4. Pioneer Assurance Company
5. Saham Life Insurance Company
6. CIC Life Insurance Company.
7. Liberty Life Insurance Company
8. Kenindia Assurance Company
9. UAP/Old mutual Life Assurance Company
10. Madison Insurance Company
11. GA Life assurance Company
12. Barclays Life Assurance Company
13. APA life assurance Company
14. The Kenya Alliance Insurance Company
15. Metropolitan Cannon Assurance Company
16. Corporate Insurance Company Ltd.
17. Kenya Orient Life Assurance Company
18. Geminia Insurance Company
19. Sanlam Assurance Company
20. Prudential Life Assurance Company
21. First Assurance Company
22. Capex Life Assurance Company
23. Takaful Insurance of Africa Company
24. The Monarch Insurance Company

Source; IRA Annual Report, 2017.

Key 1- Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree, 5 – Strongly Agree

		1	2	3	4	5
1.	Bureaucracies in claim settlement have an effect on policy cancellations					
2.	Failure to pay claims have an effect on persistency of ordinary life assurance policies					
3.	Monthly premium payment mode exhibit higher persistency					
4.	Quarterly premium paying mode exhibit higher persistency					
5.	Bi-Annual premium paying mode exhibit higher persistency					
6.	Annual premium paying mode exhibit higher persistency					
7.	Premium payment by cash methods exhibit high lapse rates					
8.	Premiums paid by checkoff exhibit high lapse rates					
9.	Premiums paid by bank standing orders exhibit high lapse rates					
10.	Premiums paid through mobile cash transfer exhibit a high lapse rate.					

11.	New product development curbs lapse rates					
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SECTION C: INTERMEDIARY FACTORS

		1	2	3	4	5
1.	Intermediaries with professional certificates have high persistency levels					
2.	More experienced intermediaries post better persistency than the less experienced ones.					
3.	Ethical conduct of the intermediary contributes to persistency					
4.	Rebating of premiums by the intermediaries leads to poor persistency					
5.	Sympathy sales leads to high lapse rates					
6.	Product mismatch leads to policy cancellations					
7.	Failure to keep in touch with customers leads to high lapse rates					
8.	Failure to remind customers on the premium due dates leads to high lapse rates.					
9.	Intermediaries selling insurance on part time basis have a poor persistency					

SECTION D: POLICYHOLDER FACTORS

		1	2	3	4	5
1.	Policyholders entry age is a factors that determines persistency					
2.	Policyholders with post-secondary education have a high persistency					
3.	Awareness levels of policyholders regarding personal risk leads to high persistency					
4.	Policyholders employed by the Government have high persistency rates					
5.	Policyholders employed by private companies have a high persistency rate					
6.	Policyholders who are self - employed have high persistency rates.					
7.	Low income earners are more likely to lapse their policies than the high income earners					
8.	Policyholders withSum assured of less than Kshs. 500,000 are more prone to lapse than those those above					

	Kshs. 500,000					
9.	Change of physical location of the policyholder increases the chances of lapsing the policy.					
10.	Male policyholders have a higher lapse rate as compared to female policyholders.					
11.	The occupation of policyholder have an effect on persistency.					

SECTION E: PERSISTENCY

		1	2	3	4	5
1.	The overall persistency for our life book is above 80%					
2.	The persistency for term assurance is above 80%					
3.	The persistency for whole life assurance above 80%					
4.	The persistency for endowment assurance is above 80%					

THANK YOU FOR PARTICIPATING


APPENDIX III: RESEARCH PERMIT


THIS IS TO CERTIFY THAT:
MR. ERIC SEKA TEYIE
of EGERTON UNIVERSITY, 0-20100
NAKURU, has been permitted to conduct
research in Nairobi County

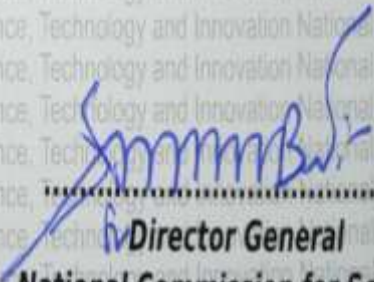
Permit No : NACOSTI/P/18/25084/26053
Date Of Issue : 11th October, 2018
Fee Recieved :Ksh 1000

on the topic: ASSESSMENT OF FACTORS
AFFECTING PERSISTENCY OF ORDINARY
LIFE ASSURANCE POLICIES IN KENYA

for the period ending:
11th October, 2019




.....
Applicant's
Signature


.....
Director General
National Commission for Science
Technology & Innovation

APPENDIX IV: RESEARCH AUTHORIZATION- NACOSTI



**NATIONAL COMMISSION FOR SCIENCE,
TECHNOLOGY AND INNOVATION**

Telephone: +254-20-2213471,
2241349, 3110571, 2219420
Fax: +254-20-318245, 318249
Email: dg@nacosti.go.ke
Website: www.nacosti.go.ke
When replying please quote

NACOSTI, Upper Kabete
Off Waiyaki Way
P.O. Box 30623-00100
NAIROBI-KENYA

Ref. No. **NACOSTI/P/18/25084/26053**

Date: **11th October, 2018**

Eric Seka Teyie
Egerton University
P.O. Box 536-20115
NJORO

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on "*Assessment of factors affecting persistency of ordinary life assurance policies in Kenya*" I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **11th October, 2019**.

You are advised to report to **the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.


Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.


**BONIFACE WANYAMA
FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.


**COUNTY COMMISSIONER
NAIROBI COUNTY
P. O. Box 30124-00100, 1001
TEL: 341666**

APPENDIX V: RESEARCH AUTHORIZATION- MINISTRY OF EDUCATION



Republic of Kenya

MINISTRY OF EDUCATION

STATE DEPARTMENT OF EARLY LEARNING AND BASIC EDUCATION

Telegrams: "SCHOOLING", Nairobi
Telephone: Nairobi 020 2453699
Email: rcenairobi@gmail.com
cdenairobi@gmail.com

REGIONAL COORDINATOR OF EDUCATION
NAIROBI REGION
NYAYO HOUSE
P.O. Box 74629 – 00200
NAIROBI

When replying please quote

Ref: RCE/NRB/RESEARCH/1/64/VOL.I

Date: 25th October, 2018

Eric Seka Teyie
Egerton University
P. O. Box 536- 20115
NJORO

RE: RESEARCH AUTHORIZATION

We are in receipt of a letter from the National Commission for Science, Technology and Innovation regarding research authorization in Nairobi County on "*Assessment of factors affecting persistency of ordinary life assurance policies in Kenya*".

This office has no objection and authority is hereby granted for a period ending 11th October, 2019 as indicated in the request letter.

Kindly inform the Sub County Director of Education of the Sub County you intend to visit.

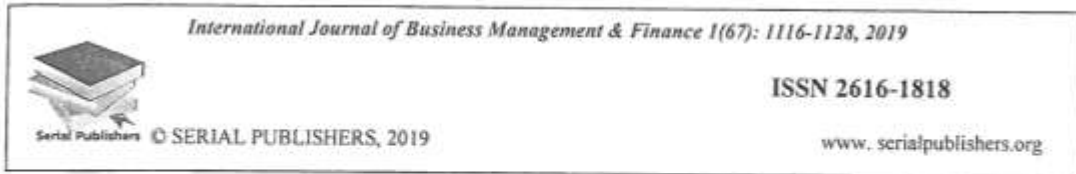


JAMES KIMOTHO
FOR: REGIONAL COORDINATOR OF EDUCATION
NAIROBI

Copy to: Director General/CEO
National Commission for Science, Technology and Innovation
NAIROBI



APPENDIX VI: RESEARCH PUBLICATION



POLICYHOLDER FACTORS AFFECTING TO PERSISTENCY OF ORDINARY LIFE ASSURANCE POLICIES IN KENYA

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Abstract: It is the expectations of good corporate governance that the managers take stock of the risks their respective businesses are exposed to so as to put in place both preventive and control measures. In light of this, there is a wide spread customer dissatisfaction in the life assurance subsector on account of persistency as brought to the fore by the persistency rates posted by the Insurance Regulatory Authority. This is partly due to the fact that the reputation of the industry has been eroded over the years as a result of both perceived and actual malpractices. The study aimed at assessing the policyholder factors affecting persistency of life assurance policies in Kenya. The research design for the study was descriptive research design. Given that there are only 24 life underwriters, the study took a census of all the companies rather than sample them. A structured questionnaire for the collection of quantitative data was presented to 48 respondents being 24 underwriting managers and 24 marketing managers of life underwriters in Kenya. The main statistical procedures for the analysis of quantitative data were descriptive statistics such as frequency distribution and percentages and dispersions. Inferential analysis was carried out using correlation analysis and regression analysis. Correlation analysis was employed to establish the relationship that exists between independent variable and the dependent variable. The study revealed that there was a statistically significant positive relationship between persistency and policyholders factors ($r= 0.462$; $p=0.001$) at a significance level of 0.01. Regression analysis was used to show how policyholder factors influence persistency of ordinary life assurance policies in Kenya. Policyholder factors had a beta coefficient value of 0.283 and a p-value of 0.001 making it have a statistically significant effect on persistency of ordinary life assurance policies. Insurers have to emphasise need-based selling by understanding the social behaviour of the proposed customer. They have to provide high-quality customer service which is responsive to the policyholder's requests. At the same time, the policy content need to be well explained to potential customers so that on appending their pen to paper they are fully aware of what they are committing themselves to. Insurers should ensure their customers know their products in terms of scope, basis of claim settlement and any limitations.

Key Words: Ordinary Life Assurance, Policyholder Factors, Persistency

Introduction

The life assurance industry has gone through several periods of transformation instigated by changes in consumer needs. Life assurance as a concept can be traced to the ancient days of Roman Collegial. The medieval guilds imposed special dues on their members and the amounts thus collected were paid to dependents of deceased members. However, life assurance as practised began in the US in the late 1760s when the Presbyterian Synods in Philadelphia and New York created the corporation for relief of the poor and distressed widows and children of Presbyterian Ministers. Subsequently, the Episcopalian priest organized a similar fund in 1769, and between 1787 and 1837, a number of life assurance companies were started although a number of them did not survive (Black and Skipper, 2005).