

CHARACTERIZATION OF THE DEMOGRAPHIC ATTRIBUTES OF CASH BASED RETAILERS AS AN ALTERNATIVE DISTRIBUTION CHANNEL FOR MICRO- INSURANCE IN KENYA

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Abstract: The insurance penetration rate in Kenya is low. Insurance has traditionally been distributed through insurance brokers and agents. The objective of the study was to characterize the demographic attributes of cash based retailers as an alternative distribution channel for micro-insurance in Kenya. A descriptive survey research design was used with a target population of 348,700 agency banking and mobile money agents in Kenya. A sample of 192 respondents was extracted with a response rate of 95 percent. A questionnaire was used to collect primary data, having structured and unstructured questions. Research assistants were used to collect data which was subsequently checked, cleaned, coded and analyzed using the statistical package for social sciences (SPSS) software. Data was analyzed using descriptive statistics including: frequencies, cross tabulations, percentages, means and standard deviations. The results were presented using tables, bar charts and pie charts. The findings indicated that the majority of retailers had a tertiary level of education with most involved in mobile money business. They served customers with low average incomes with small amounts transacted. There were no insurance organizations in their vicinity. A majority of retailers had a negative perception towards insurance largely influenced by what they heard from other people. The preference of a particular insurance company was largely determined by faster claims settlement. Life assurance was considered the easiest to sell with preference to the use of the mobile phone in transacting insurance. This was further supported with the endorsement of mobile money as the preferred mode of claims settlement.

Keywords: Cash Based Retailers, Alternative Distribution Channels, Micro-insurance.

1. INTRODUCTION

There is no fixed definition of what qualifies as an alternative distribution model. For the purpose of this study, alternative distribution is loosely defined as voluntary insurance models utilizing partnerships with institutions traditionally not in the insurance space. Examples of this type of model include retailers (furniture, supermarkets), utility companies, bill payment networks and cell phone airtime providers.

Distribution does not only entail sales. Distribution is a much wider concept than simply getting the insurance product to the client. Distribution refers to all interactions that have to take place between the underwriter of the risk and the ultimate client. This includes policy origination, premium collection and policy administration, as well as all marketing, sales and claims payment activities. It is thus a much wider concept than just insurance sales. This process may involve several different entities. In the models reviewed for this study, the different entities involved in the distribution process included

insurance companies (risk carriers), outsourced administrators, third-party payment providers (who, in some cases, also aggregate clients) and the client aggregator or distribution partner. In reviewing distribution performance, consideration has to be given to all the different activities and entities in the value chain (Bester, Chamberlain & Hougaard, 2007)

2. JUSTIFICATION OF THE STUDY

The insurance penetration in Kenya is very low at 2.37%. Kenya's penetration rate compares poorly with those of South Africa 16.99% and Namibia, Lesotho and Mauritius which had rates ranging between 4% and 7% (AKI, 2020). To remedy this, insurers are introducing products such as micro insurance solutions to increase the penetration rate and affordability. The micro-insurance products target low to medium income households and over time are increasingly becoming more popular. As a result of the increased capital requirements introduced in Kenya with the aim of ensuring more financial stability within the sector; expanding will also possibly be accompanied by lots of mergers and acquisition of smaller players in the sector (Deloitte, 2020).

For insurance companies to remain competitive especially in the underserved market, they have to devise strategies that increase market penetration. One of the approaches is the use of alternative distribution models in micro-insurance. Companies choose distribution channels that ensure their product reach the targeted customers at the right time and convenient location (Kotler, Armstrong, Wong & Saunders, 2008). The adoption of these distribution channels or models offer insurance companies an opportunity to reach out to customers more easily. The four main categories of alternative distribution channels are; cash-based retailers, credit-based retailers, utility and telecommunications companies and third-party bill payment providers.

Gitau (2013), examined strategies adopted by Kenyan insurance companies to alleviate low insurance penetration. The study identified causes of low penetration as: lack of knowledge and awareness by the general public about insurance products and the benefits, negative perception, cultural and religious beliefs, merry go rounds and harambee mentality, inappropriate products, and limited distribution channels. Wairimu and Okibo (2015) examined factors influencing micro-insurance penetration among middle and low income earners in Kenya using a case study of Kisii County, Kenya. Their findings indicated a significant relationship between distribution channels, professional sales training, government regulations and penetration.

This study sought to characterize the demographic attributes of cash-based retailers as an alternative distribution channel for micro-insurance in Kenya.

3. RESEARCH METHODOLOGY

This study adopted a descriptive cross-sectional survey research design as the respondents were required to give a description on the use of alternative distribution channels for micro-insurance in Kenya. The target population of the study was 348,700 cash based retailers in Kenya, comprising of 287,410 mobile money agents and 61,290 bank agents, with the sample extracted from the population by the use of the finite population formula:

$$n = \frac{(z^2 pqN)}{e^2(N-1) + z^2 pq}$$

Where:

n = the minimum sample size required

N = the total population of the study

Z = the standard normal deviation that is, 1.96 for 95% confidence level

P = the proportion in the target population estimated to be 50% if there is no estimate available of the proportion in the target population assumed to have the characteristic (that is, 1-p).

For this study the sample size was thus

$$n = \frac{(1.96^2 * 0.5 * 0.5 * 348,700)}{0.05^2(348,700-1) + 1.96^2 * 0.5 * 0.5} = 384$$

However, since the variables were largely categorical and descriptive statistics were used in data analysis, the sample was reduced by 50 percent of the computed sample. The sample size chosen was thus 192. Questionnaires were used in collection of primary data by the aid of research assistants. Data was analyzed using descriptive statistics including: frequencies cross tabulations, percentages, means and standard deviations. The results were presented using tables, bar charts and pie charts.

4. RESULTS AND DISCUSSIONS

4.1 Response Rate

The sample size was 192 and hence 192 questionnaires were administered, however 182 questionnaires were duly completed and returned, representing a response rate of 95 percent. According to Mugenda and Mugenda (2012) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and above is excellent. Therefore, the response rate obtained by the study was excellent for analysis and reporting.

4.2. Characterization of Demographic Attributes

This section presents a characterization of the demographic attributes of respondents involved in this study. This was the first objective of the study.

4.2.1 The Age of the Respondents

Table 4.1 below presents the descriptive statistics on the age of respondents.

Table 4.1 Age of Respondents

	N	Minimum	Maximum	Mean	Std. Deviation
Age of Owner	120	21	50	32.50	6.444
Valid N (listwise)	120				

From the results in table 4.1, the youngest respondent was aged 21 years while the eldest was aged 51 years, with a mean age of 32.5 years. The standard deviation was 6 years, meaning the average age of the respondents ranged between 26.5 to 38.5 years. The respondents who provided details of age were 120 with 62 not disclosing their age.

4.2.2 The Gender of the Respondents

Table 4.2 below presents the descriptive statistics on the gender of the respondents.

Table 4.2 Gender of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	99	54.4	57.6	57.6
	Female	73	40.1	42.4	100.0
	Total	172	94.5	100.0	
Missing	System	10	5.5		
Total		182	100.0		

The results in table 4.2 indicate that 57.6% of respondents were male and 42.4% were female. The majority of the respondents were male. Figure 4.1 below presents the results in a pie-chart.

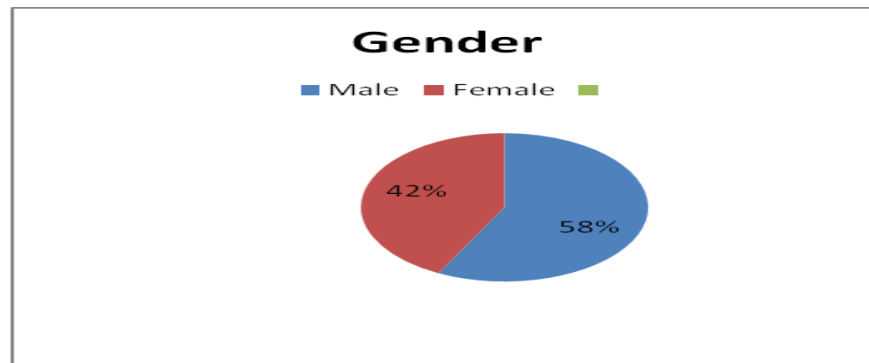


Figure 4.1 Descriptive statistics on Gender

4.2.3 The Region of Operation of Business for the Respondents

Table 4.3 below presents the descriptive statistics on the region of operation of the business by the respondents.

Table 4.3 Descriptive Statistics for the Region of Operation of Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Nairobi	110	60.4	65.9	65.9
	Central	10	5.5	6.0	71.9
	Eastern	2	1.1	1.2	73.1
	Coast	1	.5	.6	73.7
	Western	40	22.0	24.0	97.6
	Rift Valley	1	.5	.6	98.2
	Nyanza	3	1.6	1.8	100.0
	Total	167	91.8	100.0	
Missing	System	15	8.2		
Total		182	100.0		

The findings from table 4.3 show that 65.9% of the respondents operated in Nairobi, 24% in western, 6% in central, 1.8% in Nyanza, 1.2% in Eastern and 0.6% in Coast and the Rift Valley regions respectively. The majority of respondents were operating businesses within Nairobi region.

4.2.4 The Level of Education of the Respondents

Figure 4.2 below presents the results relating to the level of education of the respondents.

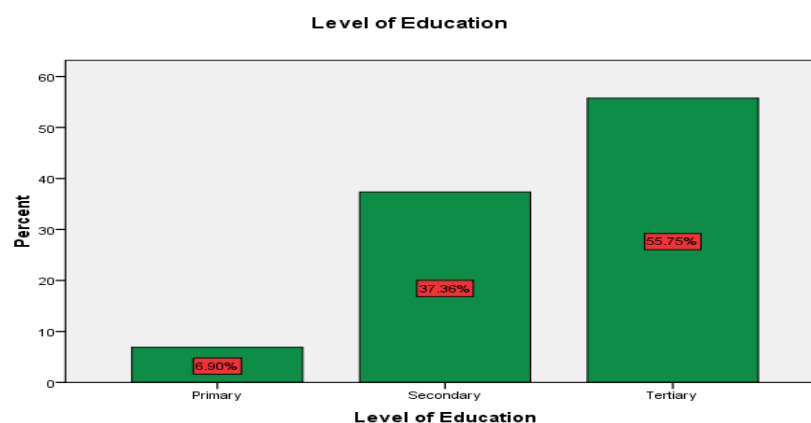


Figure 4.2 Level of Education of Respondents

As shown in figure 4.2, the respondents who had attained tertiary level of education constituted 55.75 percent, 37.36 percent had secondary level education while 6.90 percent had primary level education. The majority of respondents had tertiary level of education which makes it possible to train them on insurance and improve distribution of the products.

4.2.5 The Type of Financial Product Transacted

Table 4.4 below presents the results relating to the type of financial product transacted by the respondents.

Table 4.4 Financial Products Transacted

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Mobile Money	157	86.3	88.7	88.7
	Agency Banking	20	11.0	11.3	100.0
	Total	177	97.3	100.0	
Missing	System	5	2.7		
Total		182	100.0		

From the results in table 4.4, 88.7% of the respondents transacted mobile money business while 11.3% transacted agency banking business. The findings are consistent with the CBK (2021) report which indicates that there are more mobile money agents compared to bank agents and partnership with telecommunication network operators would be good.

4.2.6 The Daily Average Number of Customers Visiting the Shop

Table 4.5 below presents the results on the daily average of the number of customers visiting the shop.

Table 4.5 Daily Average Number of customers Visiting the Shop

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	x<100	79	43.4	50.3	50.3
	100<x<200	65	35.7	41.4	91.7
	200<x<300	6	3.3	3.8	95.5
	x>300	7	3.8	4.5	100.0
	Total	157	86.3	100.0	
Missing	System	25	13.7		
Total		182	100.0		

The results indicate that 50.3% of the respondents reported an average daily visit of less than 100 customers, 41.4% reported more than 100 but less than 200, 3.8% reported more than 200 but less than 300 and 4.5% reported more than 300 customers. Therefore the majority of the respondents reported dealing with less than 100 customers on a daily basis. Figure 4.3 below presents a bar chart of the average daily visits.

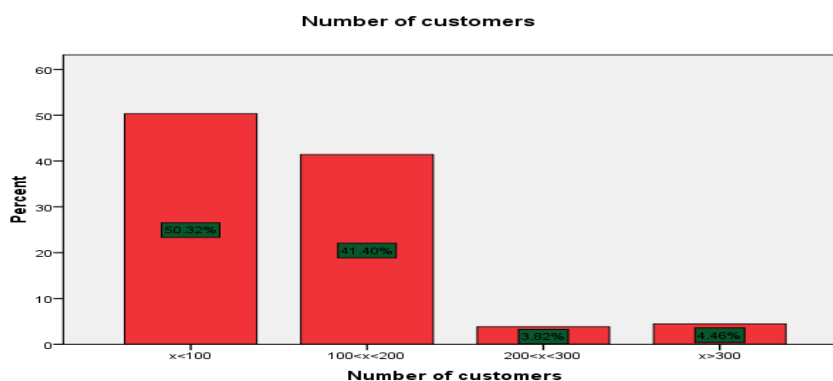


Figure 4.3 Average Daily Number Visits to the Shop

4.2.7 The Average Income Levels of Customers

Table 4.6 below presents the results on the average income levels of customers to the shops.

Table 4.6 Average Income Levels of Customers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	x<5,000	55	30.2	39.6	39.6
	5,000<x<10,000	53	29.1	38.1	77.7
	10,000<x<20,000	29	15.9	20.9	98.6
	x>20,000	2	1.1	1.4	100.0
	Total	139	76.4	100.0	
Missing	System	43	23.6		
Total		182	100.0		

From table 4.6, the results reveal that 39.6% of customers had an average income of less than Ksh 5,000, 38.1% had an income greater than Ksh 5,000 but less than Ksh 10,000, 20.9% an income greater than Ksh 10,000 but less than Ksh 20,000 and a paltry 1.4% with an income of more than Ksh 20,000. The majority of customers had an income level of less than Ksh 5,000 and hence for micro-insurance products.

4.2.8 The Average Amount Transacted by Customers

Table 4.7 below presents the results of the average amount transacted by customers every time they visit.

Table 4.7 Average Amounts Transacted by Customers for Every Visit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	x<5,000	71	39.0	51.4	51.4
	5,000<x<10,000	54	29.7	39.1	90.6
	x>10,000	13	7.1	9.4	100.0
	Total	138	75.8	100.0	
Missing	System	44	24.2		
Total		182	100.0		

The results in table 4.7 indicate that 51.4% of customers transacted amounts below Ksh 5,000, 39.1% transacted more than Ksh 5,000 but less than Ksh 10,000 and only 9.4% transacted amounts greater than Ksh 10,000. Therefore, the majority of customers transacted amounts below Ksh 5,000 on every visit.

A Pearson Chi-Square test was performed on the average income levels and the amounts transacted to determine any association between the two variables. Table 4.8 below presents the results of the chi-square test.

Table 4.8 Chi-Square Tests on Income and Amounts Transacted

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	54.416 ^a	6	.000
Likelihood Ratio	45.091	6	.000
Linear-by-Linear Association	32.398	1	.000
N of Valid Cases	131		

The results in table 4.8 indicate that there is a significant association at 0.000 ($p = 0.05$) between the level of income and the amounts transacted. This led to the rejection of the null hypothesis that there is no significant association between income levels and amounts transacted. Therefore, a cross tabulation was conducted to determine the nature of association. Table 4.9 below presents the results of the cross tabulation of income level and amounts transacted.

Table 4.9 Average Income Levels * Average Amounts Transacted Cross-tabulation

			Average amounts transacted			Total
			x<5,000	5,000<x<10,000	x>10,000	
Average Income Levels	x<5,000	Count	42	8	2	52
		% within Average Income Levels	80.8%	15.4%	3.8%	100.0%
	5,000<x<10,000	Count	19	28	2	49
		% within Average Income Levels	38.8%	57.1%	4.1%	100.0%
	10,000<x<20,000	Count	7	15	6	28
		% within Average Income Levels	25.0%	53.6%	21.4%	100.0%
	x>20,000	Count	0	0	2	2
		% within Average Income Levels	.0%	.0%	100.0%	100.0%
	Total	Count	68	51	12	131
		% within Average Income Levels	51.9%	38.9%	9.2%	100.0%

From table 4.9 results, it can be observed that for the customers with an average income of less than Ksh 5,000, 80.8% transacted amounts below Ksh 5,000; 15.4% transacted amounts greater than Ksh 5,000 but less than Ksh 10,000 and 3.8% transacted amounts above Ksh 10,000. For those with income levels above Ksh 5,000 but less than Ksh 10,000; 57.1% transacted amounts more than Ksh 5,000 but less than Ksh 10,000, 38.8% transacted less than Ksh 5,000 and 4.1% transacted amounts greater than Ksh 10,000. Those with income levels of greater than Ksh 10,000 but less than Ksh 20,000; 53.6% transacted amounts greater than Ksh 5,000 but less than Ksh 10,000, 25% transacted less than Ksh 5,000 and 21.4% transacted amounts greater than Ksh 10,000. For those with a reported income above Ksh 20,000, they transacted amounts greater than Ksh 10,000. In general, a high income level was associated with increased expenditure. This further supports the targeting of micro-insurance products for this distributional channel.

4.2.9 Reasons for Customers Patronizing Shop

Figure 4.4 below presents the results for reasons of customers patronizing shops.

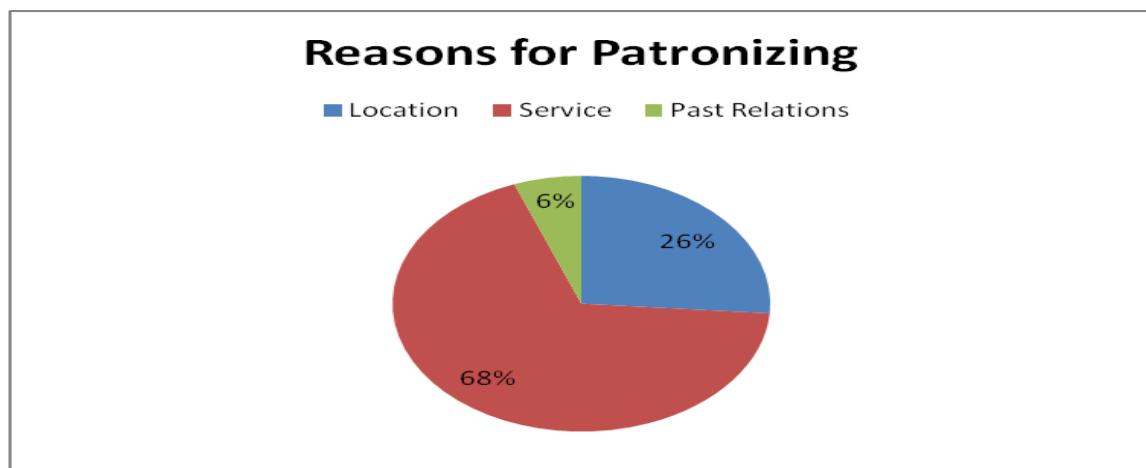


Figure 4.4 Reasons for Patronizing

Results in figure 4.4 indicate that 68% of respondents felt that the quality of service offered is what led to customers patronizing their shops, 26% felt it was the location of the business and 6% felt it was past relationship with customers. The majority felt the quality of service was the most important attribute to retain customers.

4.2.10 Proximity of Shop to Tarmac Road

Figure 4.5 below presents the findings on the proximity of the shop to a tarmac road.

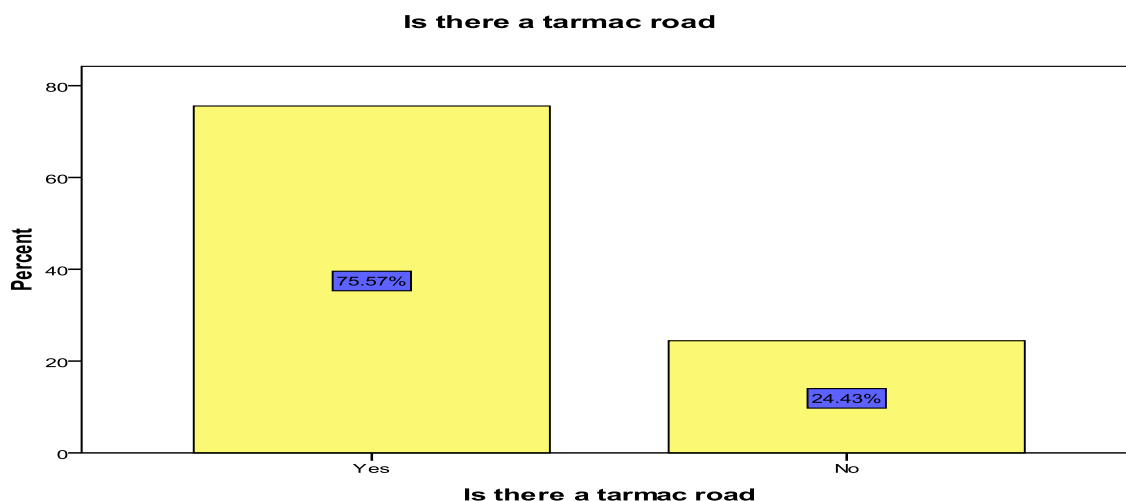


Figure 4.5 Proximity of Shop to Tarmac

Figure 4.5 findings indicate that 75.6% of respondent's shops were within proximity of a tarmac road, with only 24.4% not being within proximity of a tarmac road. The findings are consistent with those that the majority of respondents were within Nairobi region, which generally has better roads compared to the other regions.

4.2.11 Other Organizations Offering Insurance in the Area

Figure 4.6 below presents the results of other organizations offering insurance in the area of operation of the shop.

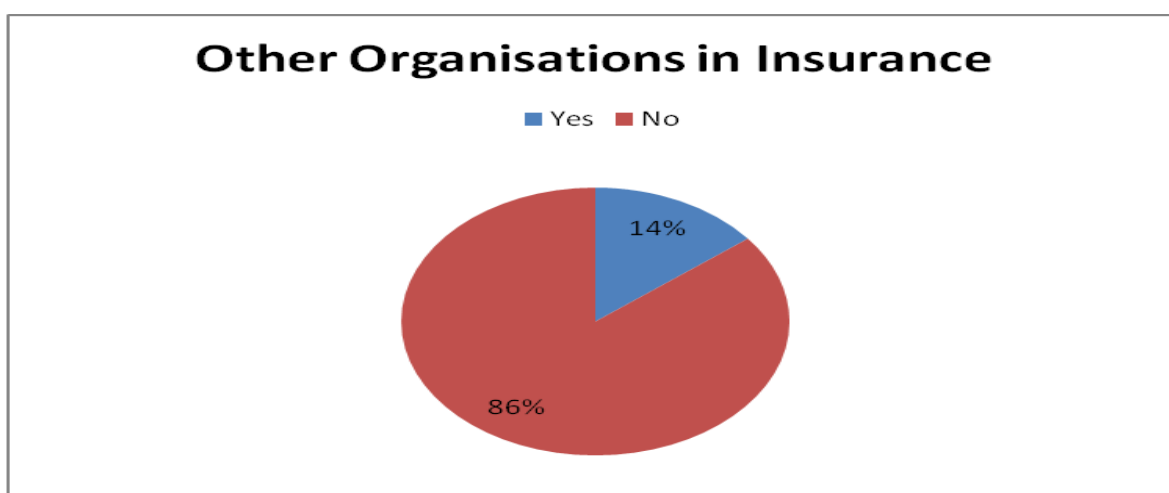


Figure 4.6 Other Organizations Offering Insurance

The results show 86% did not have other insurance organizations operating in the area, while 14% indicated that other insurance organizations were operating in the area. The implication being that the majority of respondents reported there being no other insurance organizations operating in the area of the shops.

4.2.12 Organizations Selling Insurance in the Location

Table 4.10 below presents the results of other organizations selling insurance in the location of the shop.

Table 4.10 Organizations Selling Insurance in the Location

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	NHIF	6	3.3	26.1	26.1
	AON	3	1.6	13.0	39.1
	Jubilee	6	3.3	26.1	65.2
	Britam	8	4.4	34.8	100.0
	Total	23	12.6	100.0	
Missing	System	159	87.4		
Total		182	100.0		

From table 4.10 results, it is evident that only 12.6% gave response on naming other organizations selling insurance. For those who responded, 34.8% indicate Britam, 26.1% Jubilee and another 26.1% NHIF. The majority therefore reported Britam and Jubilee and NHIF as the other organization selling insurance.

5. CONCLUSIONS

The study sought to characterize the demographic attributes of cash based retailers (agency banking and mobile money agents) on the use of alternative distribution channels for micro-insurance in Kenya.

The majority of the retailers were young aged between 27 and 39 years and most being male. They had tertiary level of education and largely running mobile money business with the majority based in Nairobi region. The implication is that the relatively young and educated retailers can be easily trained on insurance as well as adopt the latest technology and integrate products easily.

The retailers served few customers with low average incomes with small amount transacted. This justifies the design of micro-insurance products to target this market segment. The quality of service was considered important in patronizing the shops which were largely served with better infrastructure in terms of roads. There were no insurance organizations in their vicinity, presenting an opportunity for business. It can thus be concluded that the findings present a good view of the demographics of the possible business partners and the huge opportunity for the lodge of the alternative distribution channel.

6. RECOMMENDATIONS

The study recommends that insurance companies should continuously innovate by exploring the alternative distribution channels to increase the penetration rate. The focus should largely be the bottom of the pyramid where huge populations are not covered. The use of the mobile phone in business continues to grow and will largely determine the future of electronic commerce. Insurance companies will inevitably be forced to innovate round the mobile digital space, in exploring the alternative distribution channels. In addition, the use of cash based retailers, credit based retailers, telecommunication and utility companies as well as third party payment platforms, will continue to offer alternatives to the traditional insurance channels of brokers and agents. These new channels should be adopted in complementing the existing traditional channels.

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