

**AN EVALUATION OF RISK MANAGEMENT PRACTICES IN MICRO-INSURANCE: A SURVEY OF MICRO-INSURANCE SERVICE PROVIDERS IN KENYA**

**BY**

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## ABSTRACT

In the recent past, concerted efforts have been made to encourage financial service access to the poor starting microfinance and subsequently micro-insurance. With complexity of insurance and the vulnerability of the target market, there are inherent risks that insurance companies face in serving the low-end market. This study documents these risks, discusses the strategies that Kenyan insurance companies are using to mitigate the risks and discerns creative strategies to minimize them. Purposive sampling was used to select 8 companies that offer micro-insurance products in Kenya, from which 50 key informants responded to the survey. The study singled out the most ubiquitous risks facing micro-insurance providers as; diseconomies of scale resulting from low penetration, limited distribution channels, correlation risks and rigid regulatory framework. The strategies being used to counter the risks include; use of technology to lower administration costs, control of moral hazard and adverse selection, thorough scrutiny of claims, development of risk measurement models and continuous monitoring of the clients. Micro-insurance service providers are advised to invest in research and actuarial services to improve pricing of the products, develop innovative distribution channels, adopt technology conscious partnerships and devise flexible premium payment terms to enhance control of micro-insurance risks. The industry regulator (Insurance Regulatory Authority) is further advised to ensure that micro-insurance policies are drafted in simple language understandable by the clients.