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The Relationship Between Strategic Market Segmentation Capabilities and Performance of Insurance Firms in Nairobi County, Kenya

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Abstract

This study aimed to evaluate the relationship between strategic market segmentation capabilities and the performance of insurance firms in Nairobi County, Kenya. This study adopted a descriptive research design and focused on 52 licensed insurance firms in Nairobi City County as listed by the IRA (2024). The target population comprised 208 managers (general, underwriting, operations, and marketing), identified through a census approach. Primary data was collected using structured questionnaires designed to capture information on market segmentation practices and performance indicators, ensuring uniformity and comparability of responses. The data was coded and analyzed using SPSS. Data analysis entailed descriptive and inferential statistics. The descriptive statistics included means, frequencies, and standard deviations, while the inferential statistics entailed correlation and regression analysis. The findings indicated that insurance firms in Nairobi City County increasingly use market segmentation as a core strategy to enhance performance. Many firms tailor products and services to customer needs, apply data-driven and value-based segmentation, and prioritize marketing resources based on profitability. However, segmentation maturity varies across firms. Correlation and regression analyses showed a positive and significant relationship between segmentation capabilities and performance, showing its role in driving competitiveness, customer satisfaction, and sustained growth. The study concluded that market segmentation capabilities positively influence the performance of insurance firms. Tailoring products to customer needs, leveraging demographic and customer data, and allocating resources based on customer value enhance satisfaction, retention, profitability, and return on assets, while also supporting market penetration and geographical expansion. The study recommends that Insurance firms in Nairobi City County should adopt advanced technologies such as predictive analytics and AI-driven customer profiling to anticipate customer needs and personalize services in real time. They should also implement dynamic segmentation models that are regularly updated to align with changing market conditions. For policymakers, particularly the Insurance Regulatory Authority (IRA), it is recommended to establish clear guidelines and incentives that promote data-driven segmentation, while standardizing metrics to ensure consistency, transparency, and consumer protection across the industry.

Keywords: *Strategic Market Segmentation Capabilities, Insurance Firms, Performance, Nairobi County, Kenya*

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1. Introduction

Market segmentation allows entities to detect and concentrate on specific client groups, resulting in specialized product offerings that increase customer happiness and loyalty (Osei et al., 2021). Market segmentation capabilities involve an entity's aptitude to strategically divide a broad customer or market base into segments of clients with similar requirements, interests, or traits (Vetrivel et al., 2024). According to Nur and Siregar (2024), this process involves gathering and analyzing data to identify distinct groups that can be targeted with specific products or services. Market segmentation is important because it allows businesses to adjust their offers to fit the specific needs of each consumer segment, hence increasing customer happiness and retention (Osei et al., 2021). It is measured using indicators like client acquisition rates, retention rates, and profitability for each segment (Binh et al., 2021).

Insurance firm performance refers to the ability to achieve both financial and non-financial objectives through measures such as profitability, customer satisfaction, operational efficiency, innovation, and risk management (Al-Hosaini et al., 2023; Hassan, 2023). Key indicators include financial metrics such as ROA, ROE, underwriting results, premium growth, and investment income (Mutua et al., 2023), alongside non-financial aspects like market share expansion and customer satisfaction, which reflect competitiveness and policyholder loyalty (Mweu, 2021).

According to Hastuti and Santoso (2025), the insurance industry plays a central role in the financial sector by providing risk management solutions that cushion individuals, businesses, organizations, and governments against uncertainties. In Kenya, the industry has grown steadily in terms of product diversity and market players, but insurance penetration remains relatively low compared to other emerging economies (Mwongela, 2022). According to the Insurance Regulatory Authority (IRA, 2023), insurance penetration declined from 3.44 percent to 2.34 percent, indicating that despite a growing economy, the sector has struggled to expand its customer base. These challenges have raised concerns about the effectiveness of strategies adopted by insurance firms in enhancing performance, particularly in an increasingly competitive and dynamic market environment. For insurance firms in Nairobi County, segmentation is especially critical given the diversity in customer profiles, income levels, risk perceptions, and service expectations (Kamau, 2022). According to Olayinka (2021), effective segmentation enables firms to identify profitable customer segments and optimize resource allocation. In doing so, insurers are not only able to enhance customer satisfaction and loyalty but also to improve underwriting performance, increase market share, and boost long-term financial sustainability.

Despite its importance, empirical research on the role of strategic market segmentation in the performance of Kenyan insurance firms remains limited. Previous studies have examined competitive strategies and general strategic capabilities, but little attention has been given to how segmentation specifically influences performance outcomes (Kamanda, 2023). This gap is particularly critical in Nairobi County, which hosts most insurance headquarters and represents the hub of competition. Understanding this relationship is essential to guide insurers in adopting effective strategies for sustainable growth and sector-wide contribution to Kenya's financial development (Mwai, 2021).

Kenya's insurance industry comprises 52 licensed companies offering life, general, and microinsurance products, supported by brokers, agents, bancassurance intermediaries, and other stakeholders under the regulation of the Insurance Regulatory Authority (IRA, 2023). Key players include local firms such as Britam, Jubilee, APA, ICEA Lion, and Madison, as well as international firms like Allianz and Old Mutual, providing both traditional and specialized risk solutions (Atlas Magazine, 2020). The sector has embraced digital transformation through mobile and online platforms to enhance efficiency, customer experience, and market outreach (Kemboi, 2023). Regulatory classification divides insurers into life, general, and composite categories, with composite firms like CIC Insurance offering both short- and long-term policies (IRA, 2023; CIC Insurance Group, 2023). Strategic marketing capabilities remain central to competitiveness, client base expansion, and improved performance (Munene, 2023).

Ideally, insurance firms should demonstrate strong financial performance through growth in underwriting profits and investments, fostering consumer trust and national financial progress (Tonui & Mangana, 2024). However, most have struggled with declining underwriting profits and stagnating growth (Njoga & Deya, 2024). IRA (2023) reported that insurance penetration dropped from 3.44% to 2.34%, reflecting the industry's failure to harness economic potential. Underwriting results have fluctuated, with a profit of KES 1.29 billion in 2020, falling to KES 80.43 million in 2021, before recording a deficit of KES 3.72 billion in 2022 and widening losses of KES 4.96 billion in 2023, largely due to medical and motor claims.

Although several studies have been conducted on strategies and performance in the insurance industry, existing research has largely focused on broad competitive strategies (Austine, 2020), competitive tactics in specific counties (Ngugi, 2021), strategy implementation (Kimeu & Wanjira, 2022), and strategic innovations (Wanjiru, 2024). Other scholars, such as Ngundi and Omwenga (2023), examined strategic capabilities but concentrated only on firms listed on the Nairobi Securities Exchange. While these studies offer useful insights, little is known about the role of strategic market segmentation capabilities in driving the performance of insurance firms, particularly in Nairobi County, where competition is intense and customer needs are highly diverse. This gap underscores the need for research that investigates how market segmentation capabilities influence the performance of insurance firms in Nairobi County.

2. Literature Review

2.1 Theoretical review

Smith (1956) introduced the Market Segmentation Theory, which views markets as diverse groups of customers with distinct needs, preferences, and behaviors. The theory emphasizes that firms can enhance performance by targeting specific segments rather than treating the market as homogeneous. Segmentation is typically based on demographic, geographic, psychographic, and behavioral factors, with customized marketing approaches leading to competitive advantage, customer satisfaction, and profitability (Wedel & Kamakura, 2000; Kotler & Keller, 2016).

Over time, the theory has evolved with advances in data analytics and consumer research. Yankelovich and Meer (2006) highlighted the significance of psychographic and behavioral segmentation, while Wedel and Kamakura (2000) explored quantitative methods such as clustering and machine learning. More recently, Dolnicar et al. (2018) demonstrated the value of big data and artificial intelligence in refining segmentation.

In this study, the theory underscores that insurance firms operate in markets with varied customer needs, financial capacities, and risk profiles, requiring tailored segmentation

strategies. By applying effective segmentation, insurers can design customized products, optimize resource allocation, enhance customer engagement, reduce costs, and improve competitiveness.

2.2 Empirical review

Makara (2021) investigated market segmentation among small businesses in Kenya using a spectral co-clustering algorithm on integrated customer and business data. The study revealed that firms can utilize diverse data beyond traditional variables, with feature selection significantly influencing sales and market success. However, its focus on small enterprises limits applicability to insurance firms, which operate under distinct regulatory and market dynamics.

Mweu (2021) examined the effects of market share factors, segmentation, niche marketing, and market development on the non-financial success of Kenyan insurance firms. Using an explanatory design with data from 116 senior staff across 55 firms, the study found positive effects of these strategies on non-financial outcomes. Nonetheless, it presented an empirical gap as it did not assess how segmentation capabilities affect both financial and overall performance.

Ladipo et al. (2022) explored market division strategies in Nigeria's telecom sector, analyzing 370 respondents through descriptive, correlation, and regression methods. The findings showed that measurability, accessibility, uniqueness, and value-based segmentation strongly enhance competitive advantage. Yet, the study's focus on telecommunications leaves unexplored how such capabilities impact insurance firm performance.

Ren et al. (2021) studied market segmentation and renewable energy innovation in China, showing that corruption-induced segmentation inhibits technological advancement. While insightful, the research centers on renewable energy and not the insurance sector. Similarly, Mugambi et al. (2023) analyzed banana market sectors in Rwanda, finding that urbanization and consumer income drive segmentation patterns. This agricultural focus limits generalizability to insurance firms.

3. Methodology

The study adopted a descriptive research design, which is a systematic process of assembling, reviewing, and presenting data to accurately characterize a population, phenomenon, or situation. The area of focus was the 52 licensed insurance firms in Kenya as listed by the Insurance Regulatory Authority (IRA, 2024), which formed the unit of analysis. The study relied on primary data that were collected using structured questionnaires. The target population consisted of 208 respondents drawn from four managerial levels: general managers, underwriting managers, operations managers, and marketing managers in the 52 insurance firms within Nairobi County. These categories of staff were targeted because they hold strategic and operational responsibilities that directly influence the formulation and execution of marketing capabilities within insurance firms. Therefore, the unit of observation was the 208 managers. The study employed a census approach, thereby involving all members of the target population. Structured questionnaires were used as the main research instrument to collect data. The questionnaires were designed to capture information on strategic market segmentation practices and performance indicators of insurance firms. The data was coded and analyzed using SPSS V28. Data analysis entailed descriptive and inferential statistics. The descriptive statistics included means, frequencies, and standard deviations, while the inferential statistics entailed correlation and regression analysis.

4. Results and Discussion

4.1 Response Rate

The researcher administered 208 questionnaires to the sampled respondents. Of these, 163 were properly completed and free of errors, resulting in a response rate of 78.37%. This rate was considered very good, aligning with Sammut et al. (2021), who suggest that a response rate above 50% is adequate for analysis and reporting, while a rate exceeding 70% is regarded as very good. Accordingly, the achieved response rate of 78.37% was deemed sufficient for making inferences and generalizations from the study findings. Table 1 shows the response rate.

Table 1: Response Rate

Questionnaires	Frequency	Percentage
Properly filled and reverted	163	78.37
Not returned or had errors, or not filled	45	21.63
Total	208	100.00

4.2 Descriptive Results

4.2.1 Descriptive Results for Market Segmentation Capabilities

The objective of the study was to find out the effect of market segmentation capabilities on the performance of insurance firms in Nairobi City County, Kenya. Participants of the research were supposed to indicate their agreement with statements provided concerning market segmentation capabilities practice in their organization. This was done on an ordinal scale ranging from one (1) to five (5). The lowest value of 1 indicated strong disagreement, while the highest possible value of 5 indicated strong agreement. A neutral stand was represented by (3). The perspectives in percentages, means, and SD are as indicated in Table 2.

The analysis revealed that 87.30% of respondents affirmed that their organizations offer distinct insurance products tailored to varying customer needs, while only 4.91% expressed dissenting views, and 7.79% remained non-committal. The mean score of 4.22 with a standard deviation of 0.87 suggests that product differentiation is a widely adopted strategy across insurance firms in Nairobi City County, Kenya, likely aimed at enhancing market competitiveness and client satisfaction. Similarly, 89.57% of participants confirmed that their organizations deliver distinct services aligned with specific customer requirements. Only 4.30% disagreed with this assertion, and 6.13% neither agreed nor disagreed. The mean of 4.26 and a standard deviation of 0.87 imply a high level of service customization, reflecting a strategic orientation toward personalized service delivery within the sector.

Regarding data-driven decision-making, 77.92% of respondents acknowledged that their firms actively collect and analyze customer data to better understand client preferences. However, 15.95% of participants disagreed, and 6.13% maintained a neutral stance. The mean score of 3.83, coupled with a standard deviation of 1.14, points to a generally positive inclination toward leveraging customer insights, although the relatively higher dispersion indicates some variation in the adoption and consistency of such practices across firms. In addition, 90.80% of respondents agreed that customer demographics are utilized to develop targeted insurance solutions. Only 4.90% expressed disagreement, while 4.29% remained neutral. A mean score of 4.32 and a standard deviation of 0.87 suggest that demographic segmentation is a well-

established approach within the industry, likely contributing to product relevance and customer loyalty.

The findings also showed that 80.98% of respondents concurred that customer segmentation is performed based on perceived customer value to the organization. Conversely, 12.27% disagreed, and 6.75% neither agreed nor disagreed. With a mean score of 3.86 and a standard deviation of 0.97, these results demonstrate that value-based segmentation is gaining traction, though a fraction of organizations may still be in the process of fully institutionalizing it. 65.64% of respondents indicated that marketing resources are allocated based on the profitability of various customer segments, while 15.95% disagreed and 18.40% remained neutral. The mean score of 3.64, with a standard deviation of 1.02, reflects a moderately strong adoption of profitability-based resource allocation, though the higher standard deviation signals noticeable inconsistency among firms.

The average mean score of 4.02 and a standard deviation of 0.96 suggest that insurance firms in Nairobi City County are progressively embracing customer segmentation strategies. However, the variability in standard deviations across statements points to differential implementation levels, emphasizing the need for industry-wide alignment to enhance customer-centric strategies and marketing efficiency.

Table 2: Market Segmentation Capabilities

	SD	D	N	A	SA	Mean	SD
Our organization offers distinct insurance products tailored to different customer needs.	1.84%	3.07%	7.79%	49.08%	38.22%	4.22	0.87
Our organization offers distinct services tailored to different customer needs.	3.07%	1.23%	6.13%	45.40%	44.17%	4.26	0.87
Our organization collects and analyzes customer data to better understand their needs and preferences.	6.75%	9.20%	6.13%	50.31%	27.61%	3.83	1.14
We use customer demographics to develop targeted insurance solutions.	2.45%	2.45%	4.29%	42.33%	48.47%	4.32	0.87
Our firm segments customers based on their perceived value to the organization.	3.68%	8.59%	6.75%	60.12%	20.86%	3.86	0.97
We allocate marketing resources based on the profitability of different customer segments.	3.07%	12.88 %	18.40 %	47.85%	17.79%	3.64	1.02
Average						4.02	0.96

4.2.2 Descriptive Results for Firm Performance

The study further sought respondents' perspectives on the performance of the insurance firms in their respective institutions. The perspectives were sought in a Likert scale of 1-5, where the respondents were to show their level of agreement. The lowest value of 1 indicated strong disagreement, while the highest possible value of 5 indicated strong agreement. A neutral stand was represented by (3). The perspectives in percentages, means, and SD are as indicated in Table 3.

The findings revealed that 69.33% of the respondents confirmed their insurance firms had experienced consistent growth in underwriting profit over the last three years. In contrast, 17.17% expressed dissenting views, while 13.50% maintained a neutral stance. The recorded mean score of 3.72 with a standard deviation of 0.89 indicates a moderately strong consensus on underwriting growth, though variability in responses suggests differences in performance levels among firms. When asked about the growth in Return on Assets (ROA), 71.39% of the participants affirmed this performance improvement, while 18.41% reported contrary perceptions, and 10.20% remained undecided. The mean score of 3.80 and a slightly higher standard deviation of 0.97 demonstrate that although ROA growth is positively perceived, the consistency of this performance metric may vary across organizations.

Regarding customer retention, 76.69% of respondents acknowledged an improvement over the past three years. Conversely, 13.49% dissented, and 9.82% adopted a neutral position. The high mean score of 3.91, accompanied by a low standard deviation of 0.75, reflects strong alignment in customer retention improvements among insurance firms, with minimal response dispersion. In relation to market penetration, 73.62% of the respondents indicated that their firms had successfully attracted new customer segments. However, 17.79% negated this assertion, and 8.59% neither confirmed nor denied. The mean score of 3.79 and a standard deviation of 0.99 reveal a favorable perception of market reach expansion, albeit with noticeable variation in implementation success across firms.

On geographical expansion, 72.39% of respondents stated that their organizations had increased their physical or operational footprint. Meanwhile, 20.01% had differing views, and 7.59% were impartial. The mean of 3.79 and a standard deviation of 0.89 points to a generally positive trend in spatial growth, though the responses imply some organizations may still be operating within constrained zones. Customer satisfaction metrics were positively acknowledged by 80.98% of respondents, suggesting robust customer relations. Only 12.27% expressed disapproval, while 6.75% were non-committal. The mean of 3.88 and a standard deviation of 0.98 support the finding that client satisfaction levels are generally high, though some firms may not yet be achieving optimal results. The average mean score across all performance indicators was 3.82, with a pooled standard deviation of 0.91. This reflects a strong collective affirmation of performance gains within the insurance sector in Nairobi City County. However, the moderate standard deviations across various indicators highlight performance disparities, suggesting that while many firms are excelling, others may face strategic or operational bottlenecks that limit consistent growth across the evaluated dimensions.

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Table 3: Firm Performance

	SD	D	N	A	SA	Mean	SD
Our organization has experienced consistent growth in underwriting profit over the past three years.	2.45%	14.72%	13.50%	46.63%	22.70%	3.72	0.89
Our organization has experienced consistent growth in return on assets (ROA) over the past three years.	3.07%	15.34%	10.20%	42.56%	28.83%	3.8	0.97
Our customer retention level has improved over the past three years.	4.29%	9.20%	9.82%	44.17%	32.52%	3.91	0.75
Our firm has successfully penetrated new customer segments	5.52%	12.27%	8.59%	44.79%	28.83%	3.79	0.99
Our organization has expanded its geographical coverage	2.45%	17.56%	7.59%	44.17%	28.22%	3.79	0.89
Customer satisfaction surveys indicate high levels of customer satisfaction	3.68%	8.59%	6.75%	58.28%	22.70%	3.88	0.98
Average						3.82	0.91

4.3 Correlation Analysis

This section presents the results of the correlation analysis conducted to evaluate the nature and strength of the relationship between market segmentation capabilities and the performance of insurance firms in Nairobi County, Kenya. The Pearson Product-Moment Correlation Coefficient (Pearson's r) was used to assess the degree of linear association between the independent variable, market segmentation capabilities, and the dependent variable performance in insurance firms. A correlation coefficient value ranging from ±0.90 to ±1.00 indicates a very strong relationship, while values between ±0.70 and ±0.89 reflect a strong relationship. A moderate relationship is represented by coefficients between ±0.50 and ±0.69, and a weak relationship falls between ±0.30 and ±0.49. Very weak relationships are identified when the coefficient lies below 0.3.

The findings indicated a strong and statistically significant positive correlation between market segmentation capabilities and performance ($r = 0.760$, $p = 0.002 < 0.05$). It shows that market segmentation capabilities and insurance firm performance move in the same direction. For a positive change in market segmentation, there is a positive change in firm performance, and vice versa. This implies that insurance firms that effectively segment their markets based on customer needs and profitability tend to experience better performance outcomes. These results resonate with the findings of Ladipo et al. (2022), who observed that precise customer segmentation enhances marketing focus and improves organizational performance.

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Table 4: Correlation Analysis

		Performance	Market Segmentation
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Market Segmentation	Pearson Correlation	.760**	1

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

4.4 Regression Analysis

This section displays regression analysis outcomes undertaken to examine the extent to which market segmentation capabilities predict performance among insurance firms in Nairobi City County. As shown in Table 5, the model summary indicates that market segmentation capabilities have a strong explanatory power on performance among insurance firms in Nairobi City County. The coefficient of determination (R^2) was 0.577, advocating that 57.7% of the variation in performance can be explained by these strategic market segmentation capabilities. The remaining 42.3% is attributed to other factors not covered in this study.

Table 5: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.760a	0.577	0.575	0.51413

a Predictors: (Constant), Market Segmentation

ANOVA shows the dependability of the model. From the ANOVA results, the model was found to be statistically significant in explaining the influence of strategic market segmentation capabilities on the performance of insurance firms, with an F statistic of 220.028, which is considerably higher than the critical F value of 2.44 at a 5% significance level (Fcal = 220.028 > Fcrit = 2.44). The corresponding p-value of 0.000 is below the 0.05 threshold, further confirming that the model is reliable. This outcome indicates that the independent variable market segmentation capabilities provide a significant explanation for variations in performance among the insurance firms in Nairobi City County.

Table 6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	58.161	1	58.161	220.028	.000b
	Residual	42.558	161	0.264		
	Total	100.718	162			

a Dependent Variable: Performance

b Predictors: (Constant), Market Segmentation

From the findings, the constant value (α = 0.76) represents the level of strategic market segmentation capabilities held at zero. This implies that even without any influence from the identified practices, there is a baseline level of performance in the organizations studied. The regression coefficient for market segmentation capabilities was 0.806 with a p-value of 0.000

($\beta = 0.806$, $p = 0.000$). This indicates that market segmentation capabilities have a positive and significant effect on performance. For every unit increase in the effectiveness of market segmentation capabilities, performance improves by 0.806 units. This finding is consistent with the study by Mweu (2021), which found that value-for-money market segmentation capabilities significantly improve the efficacy of performance in firms, leading to better performance outcomes.

The resultant regression model was:

Performance = 0.76+ 0.806 (Market Segmentation Capabilities) + ε

Table 7: Regression coefficients for Market Segmentation Capabilities and Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.76	0.219		3.475	0.001
	Market Segmentation	0.806	0.054	0.76	14.833	0.000

a Dependent Variable: Performance

4.5 Discussion of Findings

The findings revealed that insurance firms in Nairobi City County have increasingly embraced market segmentation capabilities as a core strategic approach to enhancing their overall performance. A significant proportion of these firms have tailored both their insurance products and service offerings to align with the diverse needs and preferences of their customer base. Furthermore, many firms have adopted data-driven approaches by leveraging customer information and demographic insights to inform more precise and effective marketing strategies. The use of value-based segmentation is also evident, where clients are categorized according to their potential contribution to the business, and marketing resources are prioritized based on customer profitability. While these practices are generally well-established, variations in responses suggest that some firms are more advanced in their segmentation maturity than others. Correlation and regression analyses confirmed a positive and statistically significant relationship between market segmentation capabilities and firm performance. This implies that organizations that invest in well-defined and consistently executed segmentation strategies are better positioned to achieve competitive differentiation, customer satisfaction, and sustained growth in the dynamic insurance market environment of Nairobi City County.

5. Conclusion

It was concluded that market segmentation capabilities are positively associated with the performance of insurance firms. Firms that offer distinct insurance products and services tailored to specific customer needs, analyze customer data, and use demographics to guide product development tend to experience improved customer satisfaction and retention. Furthermore, allocating marketing resources based on customer profitability and segmenting customers by value correlates with enhanced underwriting profit and return on assets. Additionally, these practices contribute to successful penetration into new customer segments and the expansion of geographical coverage.

6. Recommendations

Based on the study findings and conclusion, insurance firms in Nairobi City County should invest in advanced segmentation technologies such as predictive analytics and AI-driven customer profiling to anticipate emerging customer needs and personalize offerings in real time. They should also develop dynamic segmentation models that are regularly updated to reflect changing market conditions, rather than relying on static demographic categories. For policy makers such as the Insurance Regulatory Authority (IRA), it is recommended to establish clear guidelines and incentives that encourage data-driven segmentation practices, while also promoting standardized metrics for measuring segmentation effectiveness to ensure consistency, transparency, and consumer protection across the industry.

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