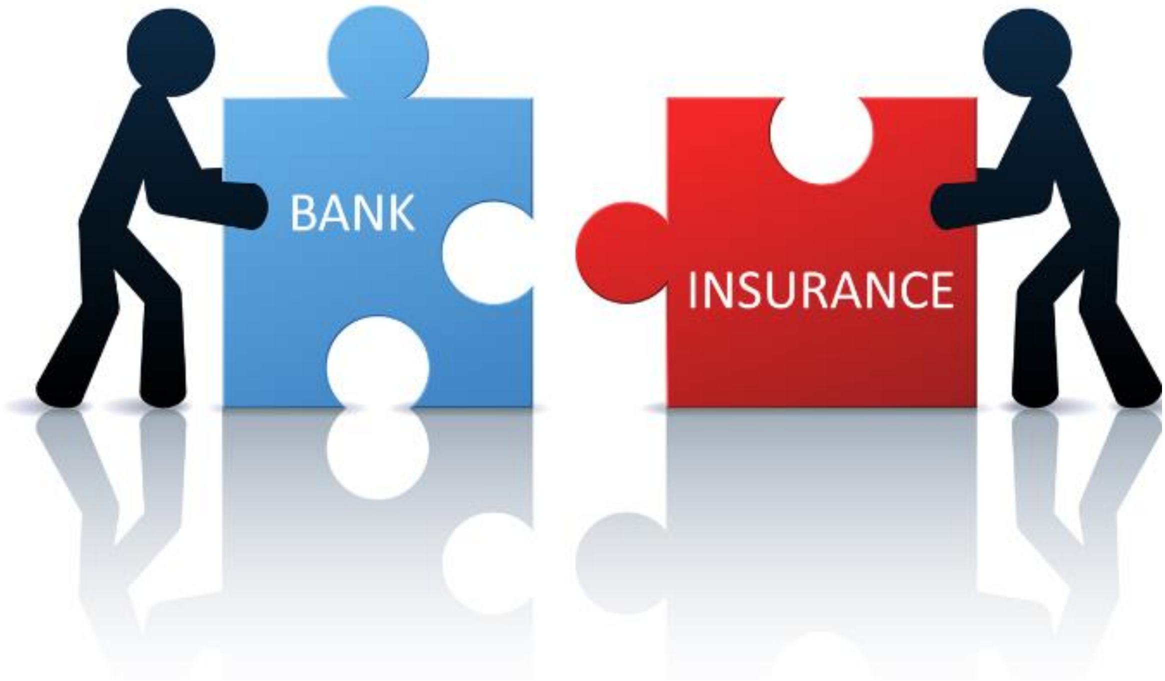
ASSOCIATION OF KENYA INSURERS

BANCASSURANCE IN KENYA: MARKET ASSESSMENT STUDY

2017



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LIST OF ACRONYMS AND ABBREVIATIONS

JAMII B……………………………………………………………………………………Jamii Bora Bank

CONS.B……………………………………………………………………………………Consolidated Bank

K.ALLIANCE……………………………………………………………………………..Kenya Alliance Insurance

EXECUTIVE SUMMARY:

Bancassurance in Kenya remains a relatively new concept that is still at the teething stage. In 2004, Central Bank of Kenya licensed the first commercial bank permitting it to trade bancassurance products and services. Since then, 26 banks have had their bancassurance agencies licensed and are currently offering bancassurance products and services.

AKI commissioned a bancassurance market assessment study with an objective of determining the level of permeation of this distribution channel in Kenya and its performance, what models have been adopted and the gaps that exist.

The survey targeted principal officers from the bancassurance agencies and insurance managers as the primary respondents. Feedback was also gathered form Bank E-channel/ICT managers and bancassurance sales team across the branches. The survey was largely qualitative with a significant sample size achievement of over 60%.

Data was also collected from the Insurers, on Class of Insurance, Gross Premiums and Claims Incurred for a period of 4 years (2013 – 2016).Data collected unveiled that 47 out of the 52 insurance companies have a bancassurance channel of distribution (16 life and 31 non-life).

Life business through bancassurance has been growing at an average rate of 36% over the last three years, with business worth Ksh 6 Billion realized in 2016 (8.12% of total life business gross written premiums). Group Life, in particular credit life insurance, contributed to 85% of the total life business through Bancassurance. The technical loss ratio was at an average of 32.4% in the four years investigated.

Non- life business growth rate was quite significant in 2014 (55%) and 2015 (30%), However the increase in 2016 was marginal at 1%. Approximate Ksh10 Billion representing 8.23% of the total gross premiums written was distributed through bancassurance, with an average technical loss ratio of 58.3%.

The study revealed that, out of the four key models, the distribution model was by far the most popular model adopted in Kenya with all 17 bancassurers interviewed partnering with several insurance companies. The study revealed that motor insurance (both commercial and private) was the most attractive policy for both bankers and insurance companies. Fire and mortgage are also relatively popular, with life insurance being the least popular bancassurance product, though all the insurance classes are underwritten through Bancassurance

Bancassurance products are distributed by salaried bank staff who are occasionally supported by contracted sales personnel. Majority of banks do not issue performance based commission. Sales are mostly done in banking halls, and occasionally outdoor marketing activities like activations and cold visits.

The study revealed that most bancassurance sales team trainings take place quarterly, the frequency increases periodically depending on the number of new products ready for release to the market at a given time. These trainings, though scheduled by the banks, involve insurance experts who train the banks sales team on the technical aspects of the products.

Despite the training on all new bancassurance products before launch, the study revealed that a significant number of bancassurance agents across sampled branches experienced challenges in probing the customer to understand customer need and proposing relevant viable options flawlessly.

The study revealed that there was a great opportunity for technology integration into bancassurance. Respondents expressed optimism in that use of technology at end user level (customer) would significantly increase bancassurance uptake in Kenya.

Implementation and enforcement was cited as the greatest challenge in the existing bancassurance laws and regulations. If well enforced, it will precipitate a level playing field for insurance companies using this distribution channel, though insurance companies should work on their brand and reputation as poor perception from customers would have an opposite effect with these laws in place.

Collaboration between banks and insurance companies would greatly improve the quality of bancassurance products and services generated. Trainings would be more effective if a practical approach was adopted where participants have more time to conduct pilot sales under supervision.

1 INTRODUCTION

1.1 Background

Insurance and banking form a critical element of financial services and in turn financial inclusion of the population. In Kenya, the two sectors have been operating separately until about a decade ago when banks started acquiring insurance agency licenses to enable them sell insurance products within the banking halls.

Insurance penetration in Kenya is at 3% of the GDP. When compared to the banking services penetration –as measured using total assets - at 64.2% of the GDP, there is a clear scope for collaboration to extend insurance products to the banked public.

Bancassurance is the partnership or relationship between a bank and an insurance company, where the bank sells insurance products alongside other banking products. The bank can focus on both their existing client database as well as other potential clients.

Bancassurance has taken form in Kenya with several banks and insurance companies partnering to offer various products within the banking halls.

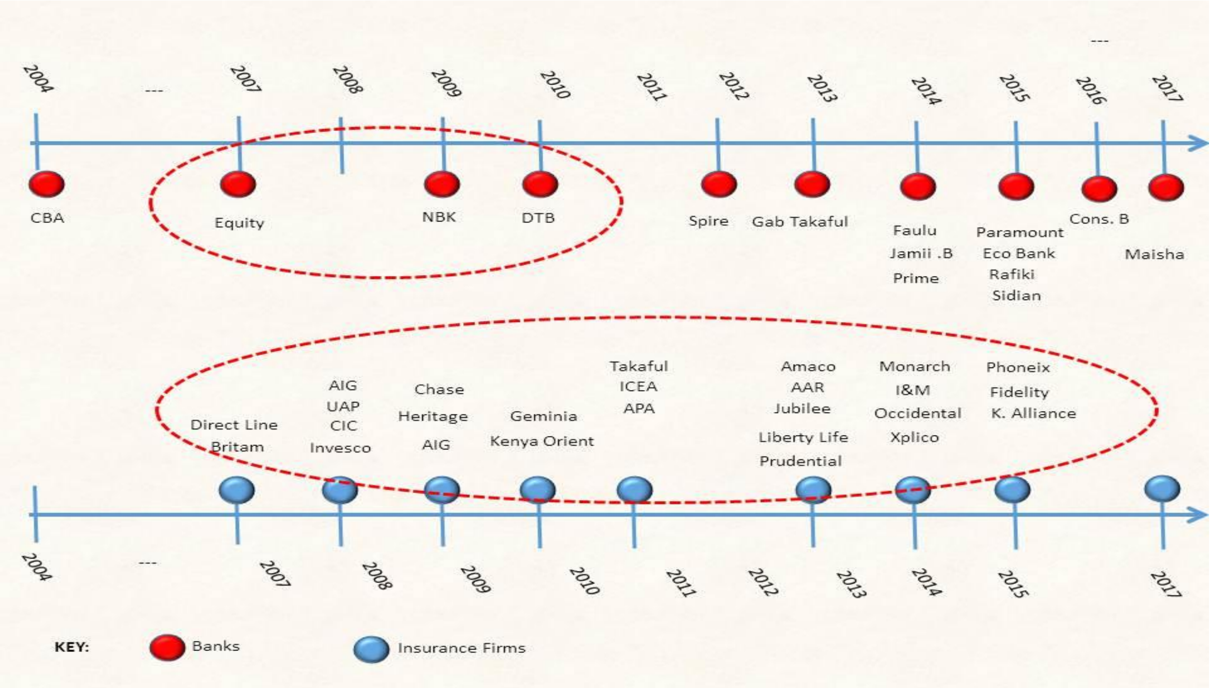
Bancassurance is a positive for both the insurance and banking sectors. The insurance companies will benefit from a wide, established and trusted distribution network, while the banks have an avenue to earn revenue from commissions.

That said, it is therefore mutually beneficial to develop and grow bancassurance.

1.2 Bancassurance in Kenya

Bancassurance made its debut in Kenya over 12 years ago with the awarding of the very first insurance agency license to CBA Bank in 2004. Since then, 26 banks and 47 insurance companies have adopted bancassurance as detailed below:

Figure 1: Bancassurance adoption in Kenya – Year



Source- Bancassurance Market Research 2017

1.3 Objectives of the Study

The main objective of the study is to better understand the distribution channel and what form it has taken in the country. Specific objectives were;

1. Document the current situation with regards to;
    - Who are the bancassurers (banks) partnering with (insurance companies)
    - Products involved (life and non-life) and the distribution model
2. Identify Bancassurance models in place as well as their pros and cons
3. Establish the level of training/knowledge of staff selling insurance within the banking halls as well as knowledge gaps/training needs
4. Establish awareness initiatives by the bancassurance agencies
5. Explore the evolution and impact of mobile and online technology to bancassurance
6. Identify information/data needs by the bancassurance agencies
7. Review the regulatory environment
8. Benchmark with other jurisdictions where bancassurance has worked

2 METHODOLOGY

2.1 Approach

The study sought an integrated approach that incorporated both literature review, qualitative and quantitative aspects, with a great skew towards qualitative. The rationale behind this approach was to gather quality qualitative feedback that would aid in identifying bancassurance bottlenecks as it was a fact finding survey.

2.2 Target Respondents

The study sought to engage the following as respondents.

1. Principal officers in bancassurance agencies
2. Insurance managers in insurance companies offering bancassurance products and services
3. Bancassurance sales teams across bank branch outlets
4. Bank ICT/E-Channel managers

2.3 RESEARCH DESIGN

Bancassurance agencies and insurance interviews were qualitative in nature as they involved one-on-one engagement with the principal officers and Insurance managers-bancassurance respectively. Banks ICT interviews were largely qualitative with mystery shopping incorporating a mix of both qualitative and quantitative.

The research design is summarized below.

Table 1: Summary of Research Design

Target Institutions	Target Respondents	Population	Sample Achieved	Approach
Bancassurance Agencies	Principal officers	26	17 (65%)	Qualitative (IDI)
Insurance Companies	Insurance Managers-Bancassurance	52	35 (67%)	Qualitative (IDI)
Banks	Bank ICT Managers/CIOs/E-channel managers	26	17 (65%)	Quantitative (Closed ended questionnaire)
	Bancassurance agents	200	122 (61%)	Qualitative and Quantitative

As indicated in Table 1 above, all samples achieved exceeded 60% of the target population, a proportion that is qualified as significant.

Further, Information on Class of Insurance, Gross Premiums and Claims Incurred was collected for a period of 4 years (2013 – 2016) from the 39 out of the 47 companies with Bancassurance yielding and achievement of: (Life: 13/16 companies; Non- Life: 26/31 companies)

2.4 QUESTIONNAIRE DEVELOPMENT

Questionnaires were identified as the best data collection tool because of the advantages it has for the study including, time saving, upholding of confidentiality and for being the best source of primary data. The questionnaire had both closed and open ended questions. Closed questions were expected to offer uniformity in responses and ease of analysis while open ended questions gave respondents an opportunity to provide their personal and unbiased views.

Four questionnaire types were used to collect data from the aforementioned respondents. The questionnaires were drafted in close consultation with AKI, Kenya Bankers Association (KBA) and Insurance Regulatory Authority (IRA).

The final instruments were tested through a pilot data collection exercise conducted by the researchers to ensure logical flow and consistency. Necessary changes were effected before the final instruments were adopted.

2.5 DATA COLLECTION

Principal Officers, insurance managers and bank e-channel manager interviews were booked in close consultation with AKI. The interviews, with questionnaires as a guide, were conducted on a date convenient with the respondent within the month of October 2017 each taking approximately 30 minutes to complete. In the few cases where respondents were out of reach, an informed alternative acted as a suitable replacement.

2.6 DATA ANALYSIS

Both the primary and secondary data was largely qualitative in nature. Given this fact, content analysis was used to analyze the data. The data obtained was also compared with existing literature in order to establish areas of agreement and disagreement.

The collected quantitative data was analyzed using quantum statistical software and Microsoft Excel program. Tables, charts, and graphs were used to present quantitative data. These presentation methods are preferred because they are easy to understand and give a birds view of the data.

3 FINDINGS

3.1 Bancassurance Models

3.1.1 Popular Bancassurance Models

In most developed markets, bancassurance takes one of four different models described below.

1. **Distribution partnership:** where the bank simply behaves as an intermediary, offering products of more than one insurance company. The business logic for such a model is the recognition by the bank of a real need to be in a position to offer insurance products to its customers while being unable or unwilling to develop such expertise internally, also because this would entail significant upfront investments.
2. **Strategic alliance:** where the bank sells the products of one insurance company only. In this model the insurer gains exclusive access to the banks customer base without having to make major investments in distribution. Likewise the bank gains product development capability without having to invest to develop this in-house.
3. **Joint venture:** where the bank and the insurer establish a jointly owned insurance company or distributor (through more or less balanced shareholdings). The joint venture becomes a new legal entity that distributes insurance or investment products through the network of its banking parent. In some cases, the relationship between the bank and the insurer is reinforced by a strategic shareholding.
4. **Integrated Bancassurance** where the bank owns the insurer or the insurer owns the bank, either directly or through a shared holding company or parent company – often referred to as a financial conglomerate

The study revealed that distribution partnership model was by far the most popular model adopted in Kenya.

All the banks interviewed indicated that they are in partnership with several insurance companies. This number would range between 7 and 25, with some banks indicating that they deal with almost all insurance companies

Notably, there was more or less equal representation of both small and big insurance companies with respect to any specific bank. Some banks further indicated that they are in partnership with up to 90% of insurance companies in Kenya

The two banks that indicated that they had an integrated partnership also indicated that they still had some form of distribution partnership with other insurance companies

Distribution model, the most popular bancassurance model in Kenya according to this study, had some advantages and disadvantages listed below

3.1.2 Advantages of Distribution Model

a) Easy to adopt as it was the first to be licensed by IRA
b) Model does not require an insurance expert to adopt
c) Distribution model was meant to increase the non - funded revenue
d) From the banks perspective, the risk is absorbed by the insurer
e) Offers a one stop shop solution to bank clients by offering both bank services and an array of insurance products.
f) Insurers benefit from the already existing bank's client base

This popular model is not without disadvantages.

3.1.3 Disadvantages of Distribution model

a) Overall turnaround time- (Time between identifying a product and availing it in the market) is affected since all products are procured at the insurers offices and availed to the bank.
b) Bancassurance products may not be diverse enough to cater for all bank customer segments
c) Because distribution is pushed at branch level, some banks do not have enough manpower in form of bancassurance officers at branch level

3.2 Premiums Collected Through Bancassurance

3.2.1 Life Business

Data submitted shows that life business through bancassurance has been increasing at an average rate of 36% between 2014 and 2016 as outlined in detail below:

Table 2: Insurance Life Business (2013 - 2016)

Life Business				
Year	**Premiums**	**Claims**	**Technical Loss Ratio**	**Increase**
2013	2,047,843,871	591,496,279	28.9%	
2014	2,806,441,405	938,501,578	33.4%	37%
2015	3,733,708,991	1,262,762,602	33.8%	33%
2016	5,188,638,473	1,669,726,590	32.2%	39%
Average			32.4%	36%

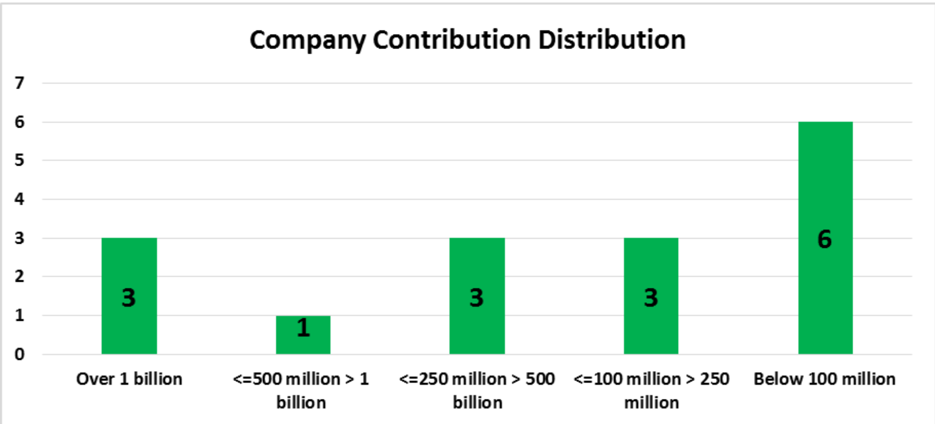
NB: Based on data submitted from 13 out of 16 life insurance companies

The technical loss ratio is at an average of 32.4% in the four years investigated, indicating that Bancassurance is a profitable channel for life insurance

Bancassurance distributed life business worth Ksh6 Billion in 2016 (Source: Previous data collected from all the 16 life companies with bancassurance), this represents 8.12% of total life business gross written premiums (73.92 Billion). Group Life, in particular credit life insurance, contributed to 85% of the total life business through Bancassurance.

Majority of the insurance companies (13) wrote premiums below the Ksh1billion mark. Only three companies wrote premiums above Ksh1 billion.

Figure 2: Life Companies Written Premium via Bancassurance



3.2.2 Non-Life Business

Data collected from non-life insurance companies, shows that 31 companies out of 36 have products sold through bancassurance.

Non- Life business data submitted shows that there was a significant increase in premiums collected in 2014 and 2015 at 55% and 30% respectively. However, the increase in 2016 was marginal at 1%.

The technical loss ratio is at an average of 58.3%. The ratio has been increasing as outlined in the table below:

Table 3: Non- life Business (2013 - 2016)

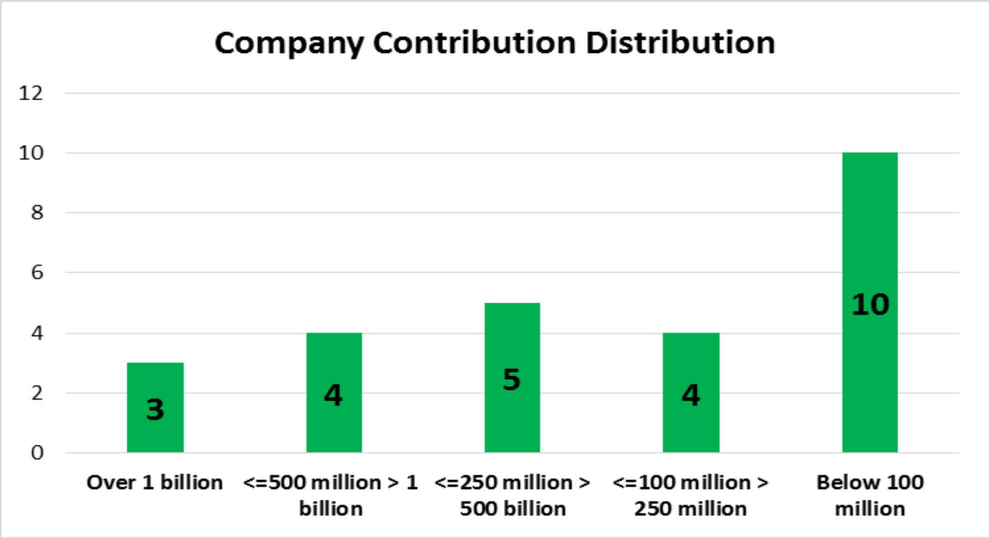
Non - Life Business				
Year	Premiums	Claims	Technical Loss Ratio	Increase
2013	4,645,099,132	2,608,423,557	56.2%	
2014	7,200,704,465	3,950,888,908	54.9%	55%
2015	9,376,014,624	5,585,711,848	59.6%	30%
2016	9,508,078,082	5,775,458,467	60.7%	1%
Average			58.3%	

***NB: Based on data submitted from 26 out of 31 non- life insurance companies**

Bancassurance distributed approximately Ksh10.13 Billion (Considering full submission - proportionated based on market share), this represents 8.23% of the total Ksh123 Billion gross premiums written by non-life underwriters in 2016.

All the 13 classes of non- life business are underwritten through Bancassurance, with concentration on motor insurance at 56% of total gross written premiums.

Figure 3: Non-Life Companies Written Premium Bancassurance



Majority of the non-life insurers wrote premiums of below Ksh100million through Bancassurance, while only three wrote premiums above Ksh1billion.

3.3 Products and Services

The study unearthed that motor insurance was the most popular policy among the 17 banks that were interviewed as most banks will easily market it by selling it along those taking car loans. Nevertheless, it was cited to have high administrative cost due to the volume of paperwork involved. Medical came in second as the policy with high administrative costs due to the required continuous trainings and record keeping.
Below is a summary of the various respondents and the insurance product they indicated as most profitable

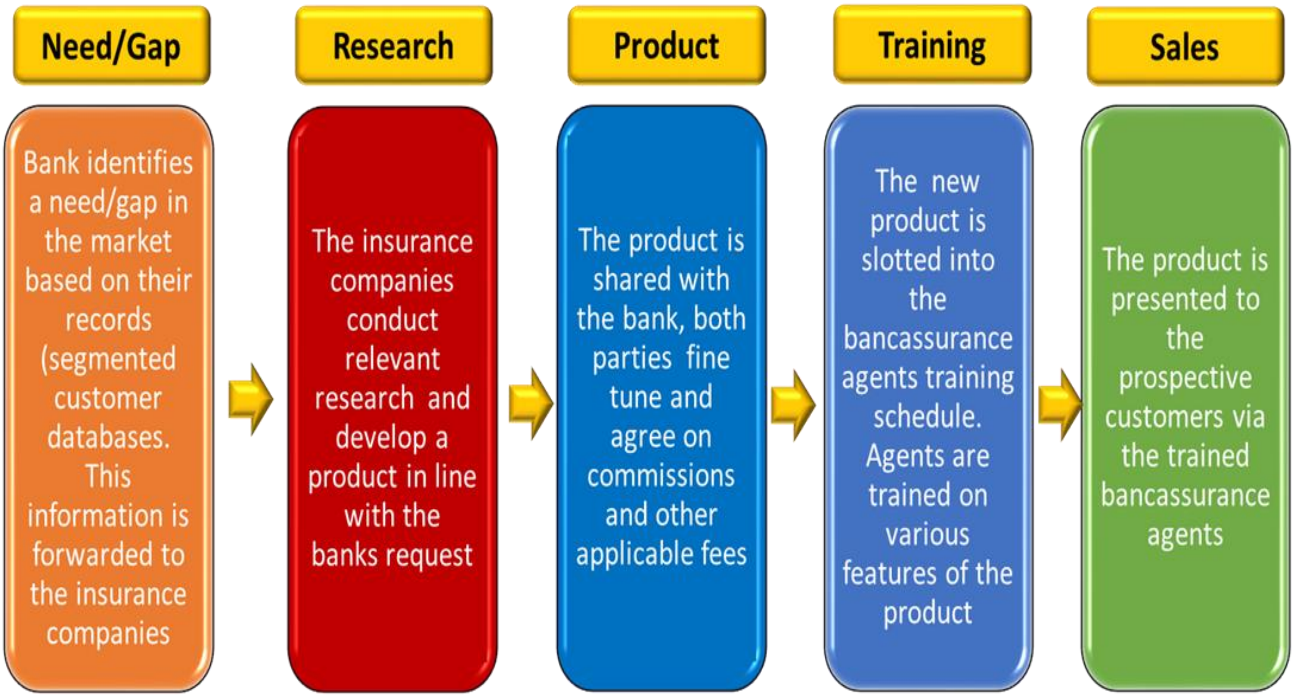
3.3.1 Product Development Cycle – Distribution model

The study established that almost all banks and insurance companies have adopted a similar approach to developing bancassurance products under the distribution model. Successful bancassurance markets, which include France, Portugal and Spain primarily involve selling simplified products over the counter to customers who make on the spot decision. The high success rate is largely informed by the effort which these banks put towards understanding their customers. In other words, at any given time these banks know which customers in their database are likely to buy 'mangoes', those likely to buy ‘oranges’ etc, hence the only question remaining to the customer is “how much of mangoes and oranges”

In Kenya, once banks identify an insurance gap within a specific market segment, they either develop a product to meet the identified need or reach out to insurance companies with specifications of the required product. However; the request for new product by banks to insurance companies is largely skewed towards the bank’s interests as products deemed as profitable to the bank are prioritized to the detriment of the slow moving policies

This approach is consistent with developed international bancassurance markets. The flow chart below summaries bancassurance product development cycle.

Figure 4: Bancassurance Product Development Cycle



The survey further unearthed that not all products are developed from scratch. To avoid re-inventing the wheel, once banks develop a product need and share with insurance companies, the underwriters may modify an existing product to fit the identified need and then push it to the banks for sale.

3.3.2 Challenges of the Distribution Model

Insurance companies indicated that bancassurance favored banks more as banks would only take in/ request for products that fits their needs without necessarily factoring in the needs of the insurance companies. A good example is that of motor insurance which is popular with banks as they easily sell it along with car loans. However, the burden of increased claims falls on insurance companies. Life insurance products appear less attractive to banks as compared to general insurance e.g. motor (commercial and private) yet insurance companies consider life insurance as profitable.

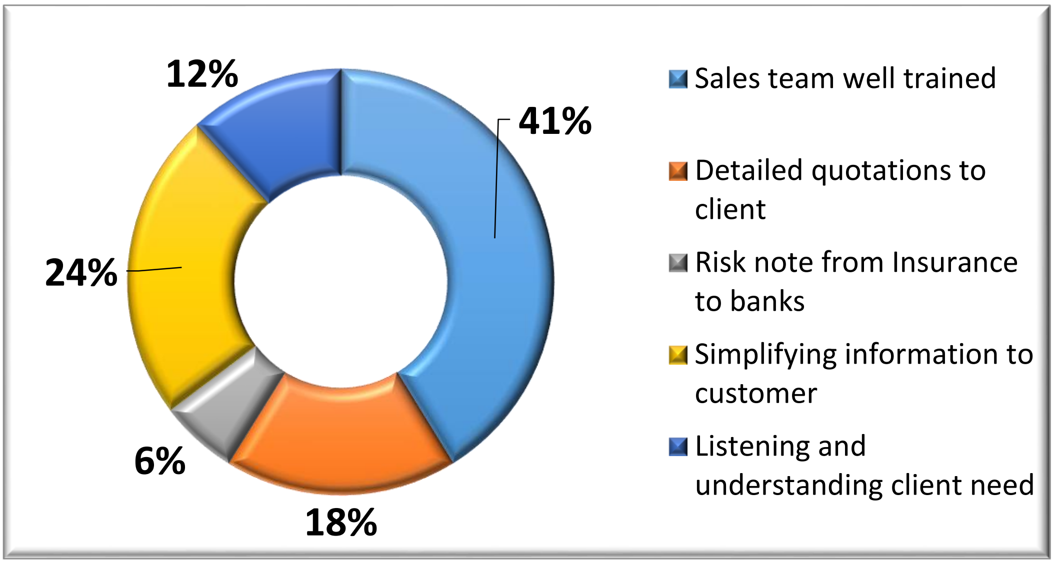
The study also revealed gaps in how customer information is obtained from Banks, consequently affecting the ultimate product developed. A significant number of insurance companies indicated that banks were quite economical when it comes to information sharing. These insurance companies felt that the bancassurance symbiotic relationship would be more fruitful if banks allowed insurance companies to access customer information.

3.4 Marketing and Distribution

It emerged that banks largely rely on a trained sales team in ensuring that relevant and adequate information is presented to the customer. 41% of respondents indicated that their sales team were well trained, however, as discussed in a later section of this report, mystery shopping revealed that majority of the sales team were not well equipped with product knowledge. 24% of the banks that participated in the survey indicated that their number one priority is to ensure that information presented to the customer is simplified enough.

14 banks indicated that they hold outdoor sales activities where they are either invited to go present to client, conduct road shows and other forms of activations, or their bancassurance agents make cold visits in pursuit of new business.

Figure 5: Communication clarity

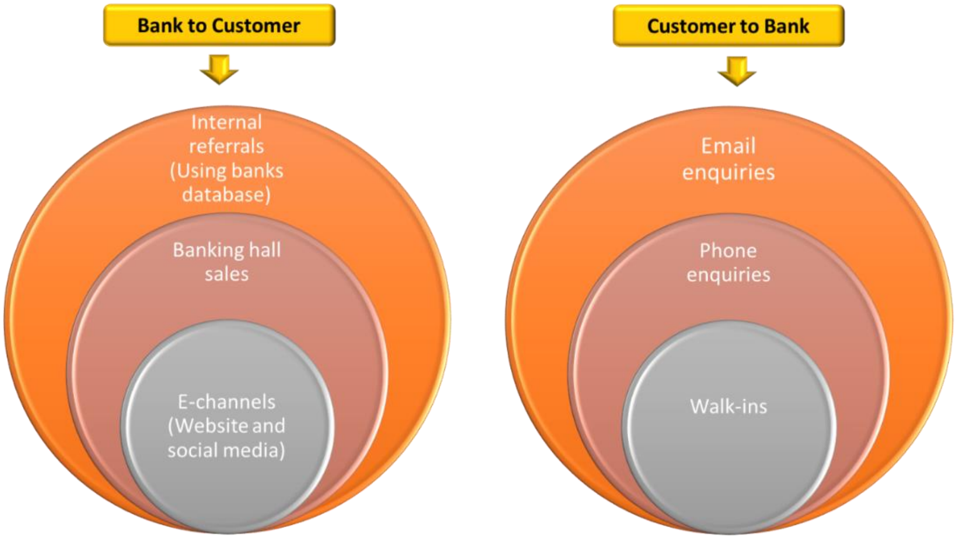


3.4.1 Mode of New Business Acquisition

Internal referrals were cited by almost all banks as the stream that brings in the highest bancassurance revenue by banks. This is expected and consistent with other markets like France, Spain and India where bancassurance is a success. Banks rely on their segmented database to identify a particular segment of interest, request insurance companies to develop the insurance product based on the segment specifications, once the product is ready and approved, the sales team uses the relevant segment database to pitch the new product via calls and emails. The expected conversion rate is higher than that of cold calling as the product is developed with the segment of interest in mind.

Banking hall sales came in second with all banks interviewed indicating they have sales staff across all their branches.

Figure 6: Mode of New Business Acquisition

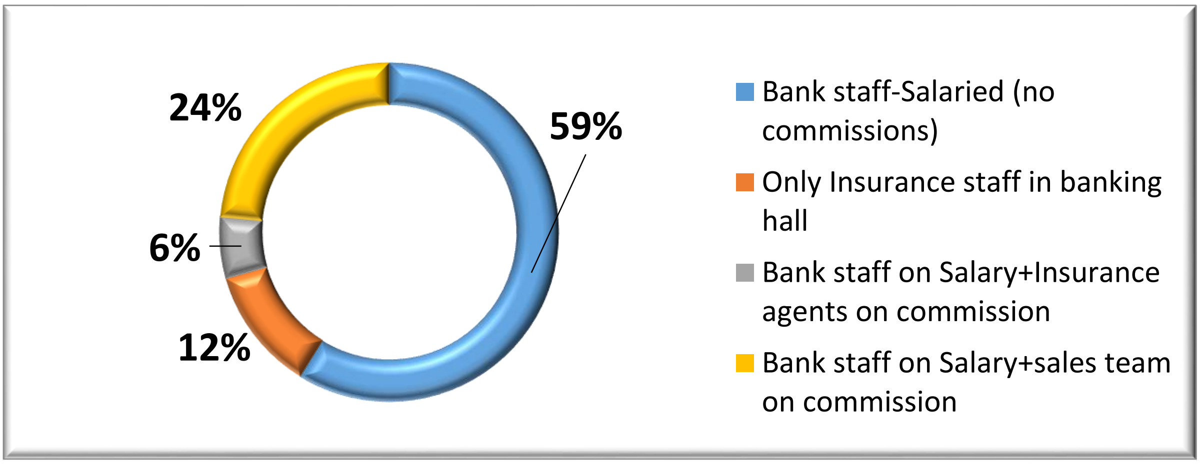


When it comes to enquiries made on bancassurance, it emerged that e-mail enquiries were popular, closely followed by phone call enquiries. Walk in clients came in third.

Almost all banks interviewed indicated that they used their staff to sell bancassurance products. Their staff are trained whenever a new product is available. Further, the study revealed that 59% of respondent banks have their bancassurance staff on salaries with no performance based commission.

In instances where multiple products are launched simultaneously, some banks hire additional sales team on contract to supplement the in-house sales team.

Figure 7: Bancassurance Sales Team

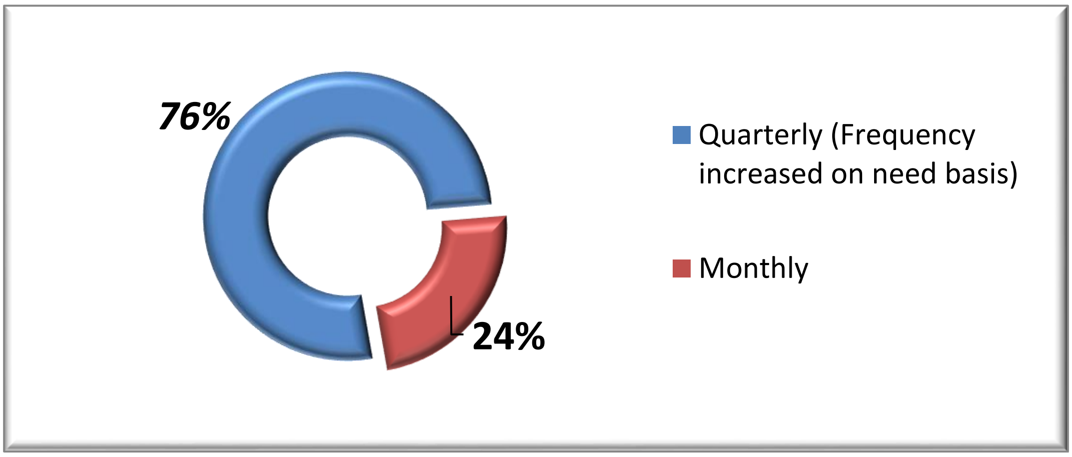


3.5 Training

3.5.1 Training Frequency

The study revealed that all banks have a form of training for its bancassurance staff. In almost all cases, trainings are organized by the banks, insurance staff are then invited to co-facilitate the training with the bank Principal Officers/Training team. The banks training team touches on general aspects of selling insurance products whereas the insurance training team handles the specific technical details of the product(s). Most banks indicated that they have scheduled quarterly trainings, while a few banks conduct them monthly.

Figure 8: Training Frequency



These trainings follow a schedule, however the schedule is occasionally disrupted when there is an influx of new bancassurance products to be sold; the schedule is also disrupted whenever there is a high turnover of sales staff.

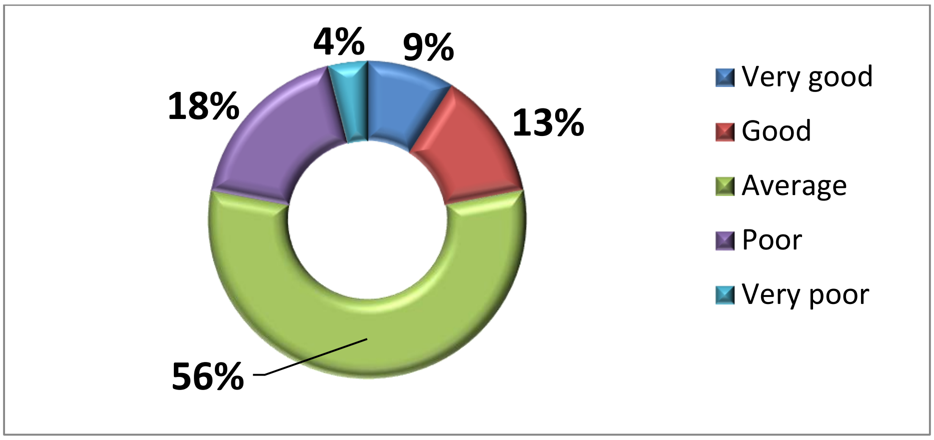
3.5.2 Training Gaps

Respondents indicated that the key training gap was product knowledge. This fact was supported by mystery shopping that revealed low product knowledge among bancassurance officers as indicated below:

3.5.2.1 Product Knowledge

Was the agent you interacted with experienced and technically competent with regard to matters on bancassurance?

Figure 9: Bancassurance Sales team product knowledge



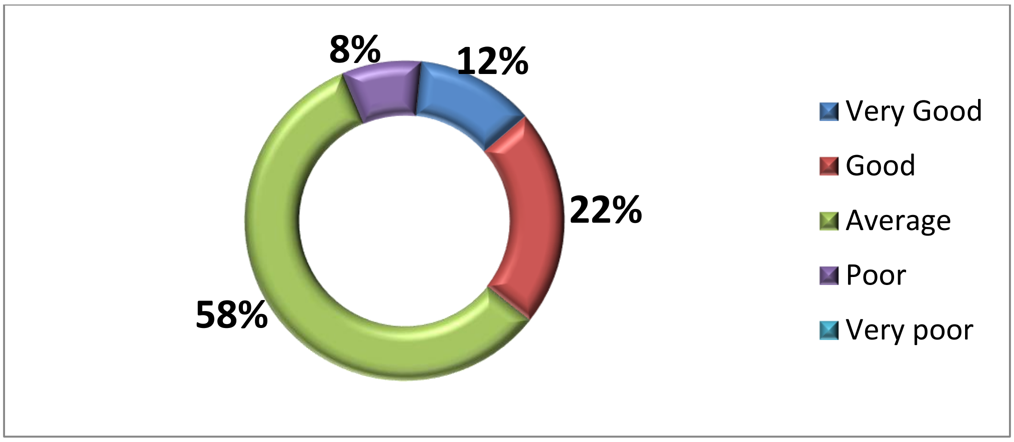
This finding appears to contradict the earlier finding indicating that banks conduct frequent trainings. However, it did emerge that the sales team does not have an insurance background and are all on salary, with a few enjoying commissions based on sales. These two factors paired with high sales team turnover could explain why product knowledge remains a challenge.

Mystery shopping further unearthed that some bancassurance agents struggled to explain the products, relied on the printouts, and in several cases had to refer the mystery shopper agent to a colleague for further information. The bancassurance agent's job within the banking halls seems to have been left to inexperienced staff or at the very least staff who did not have a good understanding of the product.

3.5.2.2 Bancassurance Staff Communication Skills

Customer Care representative communicates in simple and easily understood language

Figure 10: Bancassurance Staff Communication Skills



Both banks and insurance companies did acknowledge the fact that the key training gap was product knowledge. Further, respondents confirmed that this particular knowledge gap adversely affected sales when not arrested in good time.

3.6 Legal and Regulatory Framework

A supportive regulatory framework is important in the success of bancassurance. A study done by Teunissen in 2008 showed that the development of bancassurance products in developed countries such as France, Italy and Spain was favored by a high degree of regulatory freedom. Global audit firm, Price Waterhouse Coopers (PWC 2012) also explained that regulation affects the pricing and delivery of insurance products.

In Kenya, the Insurance Regulatory Authority reviewed the guidelines on bancassurance in 2014 in order to facilitate banks licensed by Central Bank of Kenya, (CBK) to distribute and sell insurance to their customers. It recognized the need for increasing insurance penetration in the country by using alternative distribution methods with institutions that have a wide customer base. The improved regulations have enabled most banks to venture into bancassurance.

In 2014 IRA introduced a law directing all banks conducting bancassurance to give customers the freedom to choose their insurer. This was to ensure that all insurance companies in bancassurance enjoy a level playing field. In 2017, the Statute Law (Miscellaneous Amendment) Act introduced penalties for non- compliance with the law directing banks to ensure customers freely select an underwriter for their insurance needs.

In particular, the Statute Law (Miscellaneous Amendment) Act, 2017 provides for the following:

- Sec 3A (1) objects and functions of the Authority. Section 3A (ha) has been included to provide for the Authority to educate the public regularly on the right to independently select an underwriter or broker from a list of underwriters or brokers licensed by the authority.
- Section 3A (hb) has also been included to mandate the authority to regulate business of bancassurance offered by banks in the same manner as ordinary insurance including capital requirements and disclosures.

- Sec 3A (3) the Authority may provide for the punishment of a person who contravenes any of the standards of conduct of insurance and reinsurance business in Kenya published by the Authority by a fine not exceeding five million shillings or to imprisonment for a term not exceeding five years or to both such fine and imprisonment.
- Sec 71A (1) provides that A bank shall— (a) inform a loanee, in writing, that the loanee has a right to select an underwriter or broker from a list of underwriters or brokers licensed by the Authority; (b) inform a loanee, in writing, that the loanee has an option to forfeit the right to select an underwriter or broker; (c) not prescribe or assign an underwriter or broker to a loanee, unless the loanee forfeits in writing the right to select an underwriter or broker; and (d) update the list of licensed brokers or underwriters availed to loanees regularly and ensure that underwriters or brokers under statutory management are excluded from the list.
- Sec 71A (2) provides that a bank that contravenes the provisions of subsection (1) commits an offence and shall upon conviction be liable to a fine not exceeding five million shillings.

  (Source: *Kenya Gazette Supplement No. 54 (Acts No. 11)*).

3.6.1 Implementation and Enforcement

Insurance respondents indicated that they are aware of existing laws and regulations touching on bancassurance; the greatest challenge cited was on implementation and enforcement of these laws. Respondents were of the view that IRA should do more to ensure all regulations are effected.

These statutes, if well enforced, will precipitate a level playing field for insurance companies using this distribution channel. On their part, insurance companies should work on their brand and reputation as poor perception from customers would have an opposite effect with these laws in place.

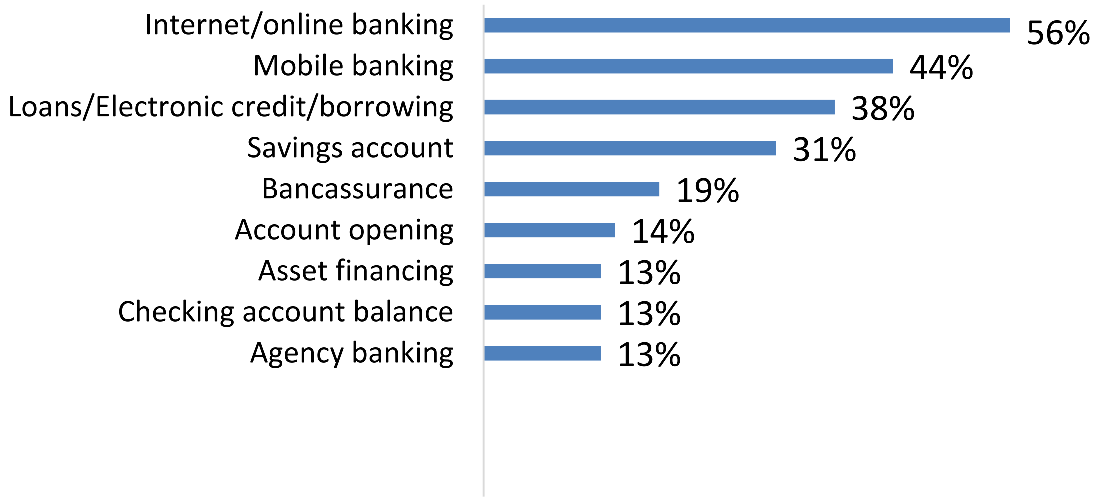
3.7 TECHNOLOGY

Bank e-channel managers were interviewed on Information Technology (IT) related questions. The questions sought to understand the level at which the banks had leveraged on IT, and the likelihood of bancassurance going digital. The questions were largely quantitative and responses are as follows:

3.7.1 Products and Services

Which are some of the successful products and services targeting retail customers (if any) that your bank has introduced within the last three years?

Figure 11: Successful Products and Services

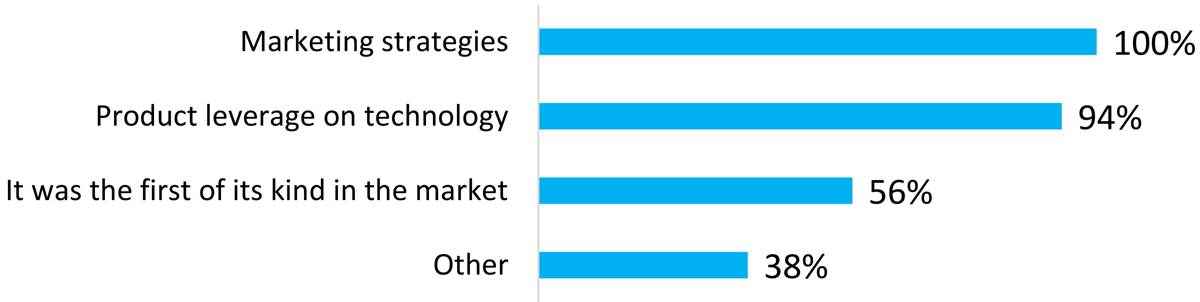


Internet/ online banking and mobile banking were by far the successful products and services targeting retail customers that banks had introduced within the last three years.

3.7.2 Product Success Factors

What are some of the key factors you would attribute to the success of the products listed above?

Figure 12: Product Success Factors

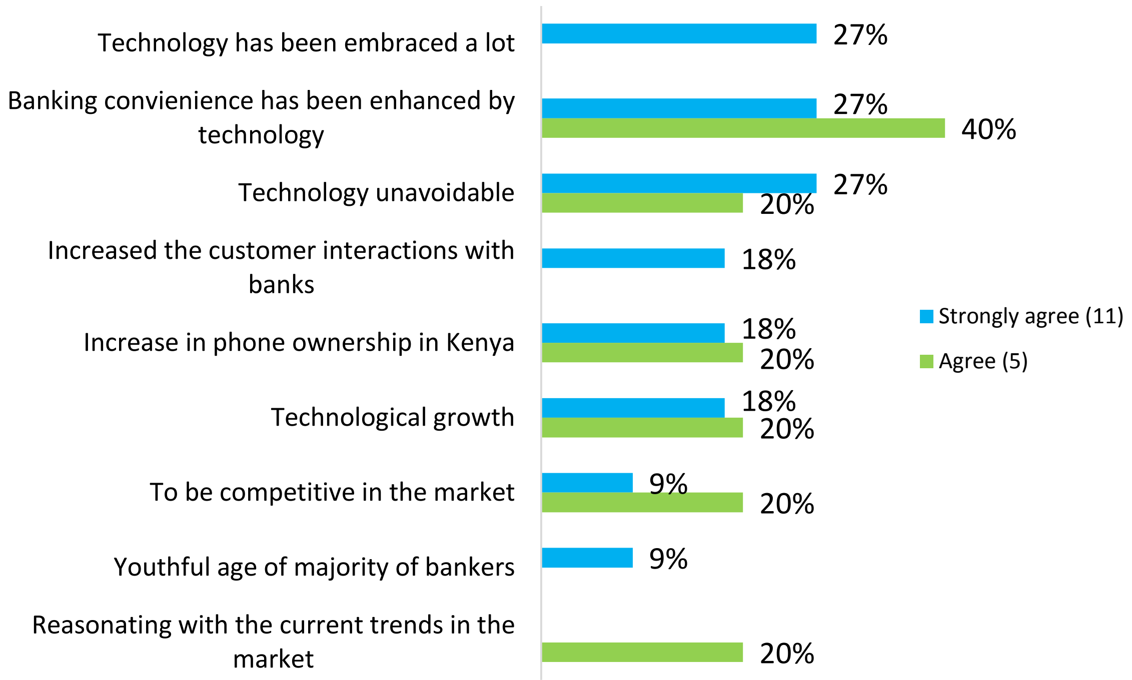


All respondents indicated that proper marketing strategies were the key success contributors closely followed by product leverage on technology.

3.7.3 Technology on Penetration of Bank Products

To what extent would you agree/disagree that technology has positively influenced penetration of your bank's products and services to retail customers?

Figure 13: Effect of Technology on Products and Services

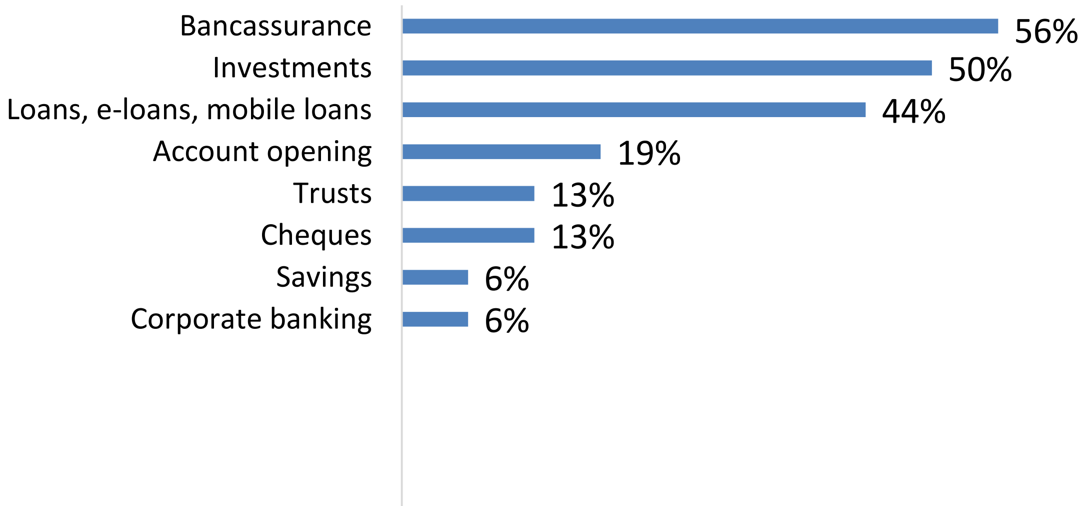


In general, respondents agreed that technology had played a significant positive role on their products and services.

3.7.4 Products that require Digitalization

Are there products and services that your bank is currently offering that you feel would do better in terms of uptake if digitized? Which are these products?

Figure 14: Products in need of Digitalization

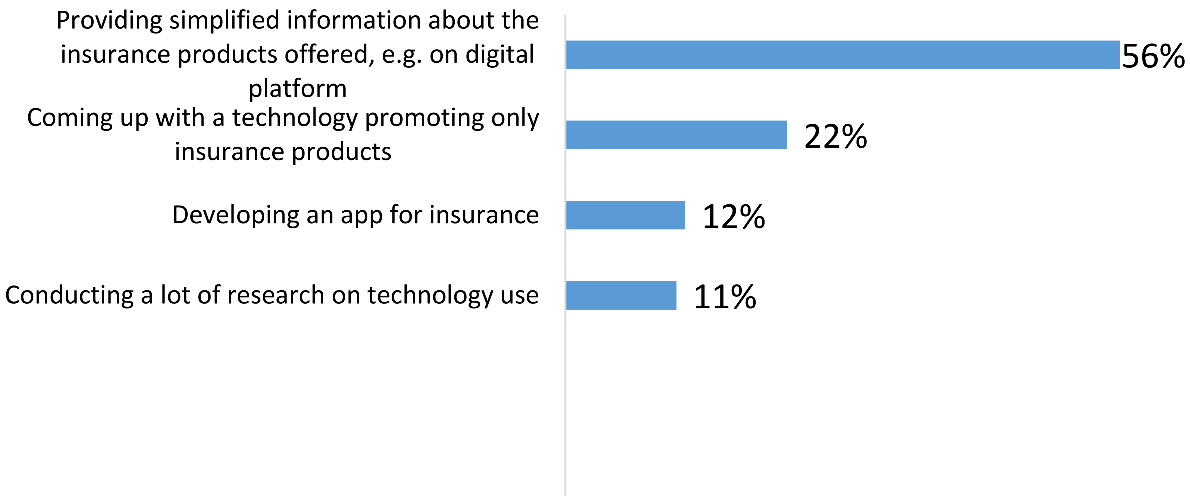


Bancassurance was cited as the one product that if digitalized would enhance its uptake.

3.7.5 Bancassurance Leverage on Technology

In your assessment, how can insurance sales through bancassurance in your bank be enhanced via use of technology? (n=16)

Figure 15: Bancassurance leverage on technology

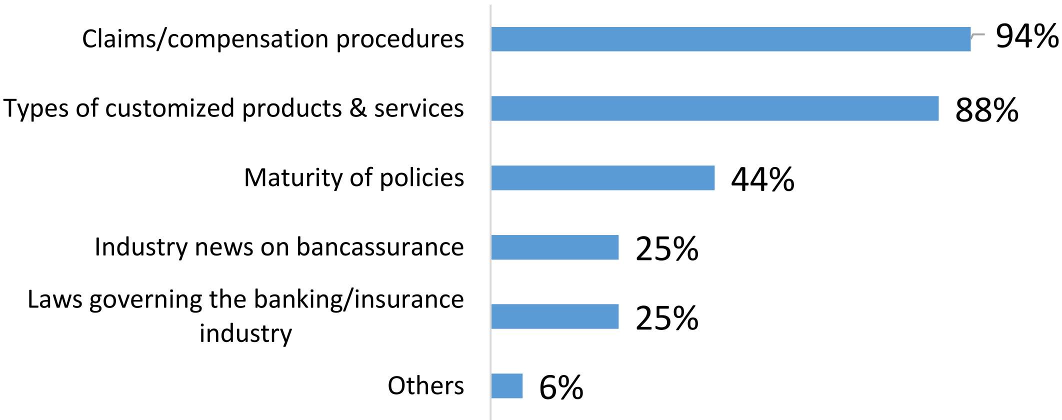


56% of respondents indicated that by simplifying information and providing it on a technological platform, bancassurance sales would increase exponentially.

3.7.6 Information on Bancassurance

What information on bancassurance would you like customers to receive from providers? (n=16)

Figure 16: Customers information needs on Bancassurance

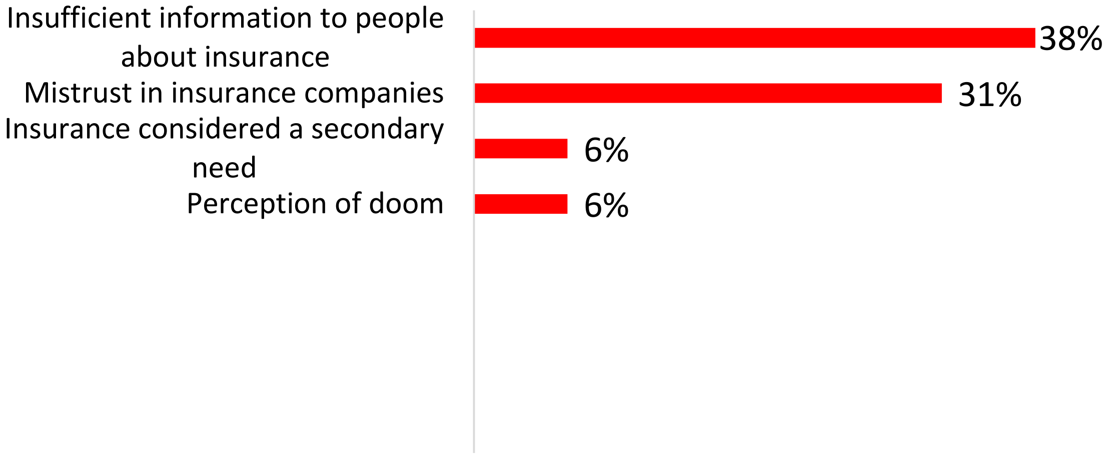


Most sought after bancassurance information is claims and compensation procedures.

3.7.7 Hindrances to Bancassurance Growth

In your assessment, what are some of the factors that have hindered bancassurance exponential growth in Kenya? Why do you say so? (n=16)

Figure 17: Hindrance to Bancassurance Growth

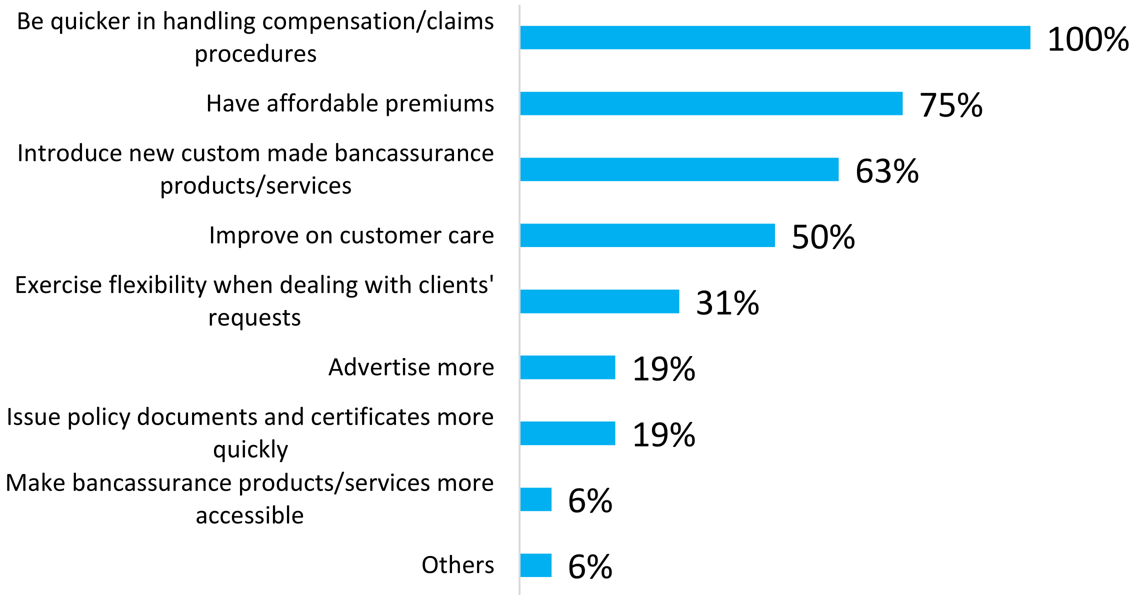


Insufficient public information on bancassurance was cited as the main hindrance to bancassurance uptake in Kenya, coming in second was mistrust in insurance companies.

3.7.8 Bancassurance Suggested Improvements

If you were to advice on how to improve bancassurance products and services, what three suggestions would you give? (n=16)

Figure 18: Proposed improvements to Bancassurance



All respondents emphasized the need for insurance companies to expedite claim processing.

3.8 BENCHMARKING

Bancassurance has achieved remarkable success in some markets. In Europe, particularly France, Italy, Portugal and Spain, banks handle over 60% of life insurance business. Banks and insurers are attracted to the idea of bancassurance for different reasons, which also influences the format of their cooperation.
What are some of the factors that have made bancassurance a success in these countries?

3.8.1 Regulatory Environment:

According to a publication by a Swiss Reinsurance Company (*Bancassurance: Emerging Trends, Opportunities and Challenges, Economic Research & Consulting, Vol 5-2007)* supportive regulatory environment is critically important for the successful development of bancassurance. The publication states that liberal regulations on ownership of insurance companies by banks, and the sale of insurance products through banking networks, are clearly a precondition for bancassurance to develop. The report quotes Italy as an example where in 1990, Amato Law made it possible for banks to invest in insurance companies and enabled bancassurance to take off. More recently, the relaxation of restrictions on bancassurance in Asia, notably in India, China, Japan and South Korea, has facilitated the growth of this channel. Australia has a high level of bancassurance penetration in the life sector, due to the acquisition of many life companies by bank groups. In Turkey, The mortgage law passed in 2007 helped grow the underdeveloped housing loan market and improved sales of mortgage-linked term life policies through bancassurance.

Mark Teunissen in his publication -Bancassurance: Tapping into the Banking Strength – 2008, argues that a supportive regulatory regime is critically important. In the UK, a heavily regulated sales process for long-term products has so far limited the success of bancassurance (Swiss Reinsurance Company-2007).

Where legislation has allowed bancassurance, it has mostly been a phenomenal success especially now that banks are starting to become more diverse financial institutions and the concept of universal banking is being adopted (Hassan A. Shah, 2008).

3.8.2 Taxation

In Italy, France and Spain, positive tax treatment favored the development of bancassurance products. For example, until 1995, life insurance products in France benefited from several tax advantages, including tax deductibility of up to 25% of premiums, exemption from tax on income from capital gains after eight years, and exemption from inheritance tax in most cases (Swiss Reinsurance Company-2007)

A positive fiscal treatment of long-term savings products in a number of countries has favored the development of bancassurance, as bancassurers were able to exploit these tax advantages by offering simple, low cost, long-term savings products, which were an attractive alternative to the traditional, more complex offering of the insurance sector. Mark Teunissen (2008)

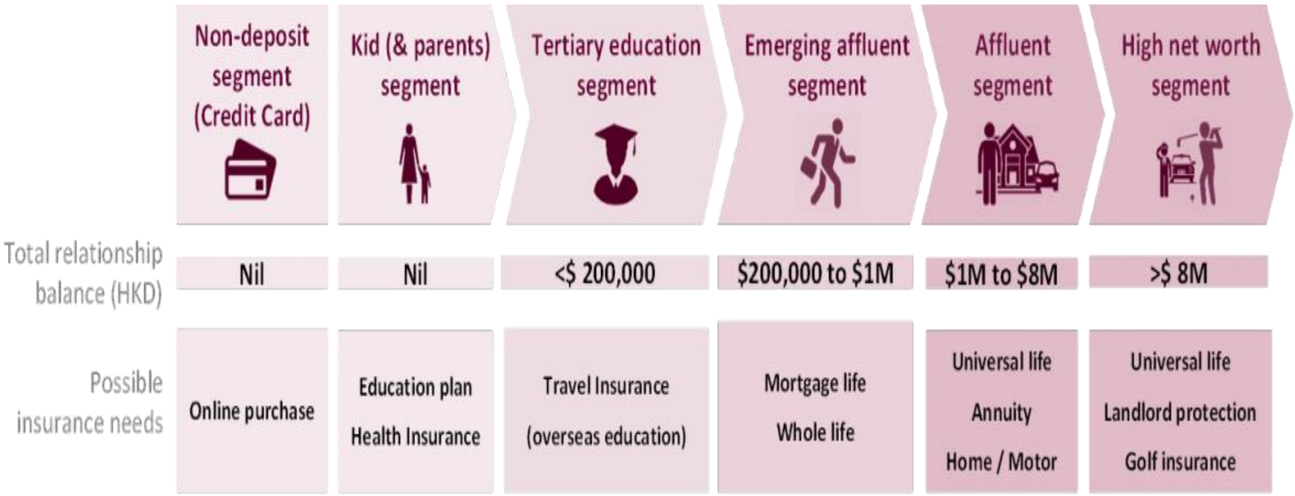
3.8.3 Product Complexity

Bancassurance sales are high in countries where the products tend to be relatively simple and have a natural affinity with core banking products, there has been limited success where expert advice is required to sell complex products. Bancassurers have been most successful in selling deposit-substitutes, such as simple unit linked products, and other products that are easy to bundle, or cross-sell, with mortgages, loans or deposits, (e.g. household insurance, mortgage-related term assurance and credit insurance). These products are well suited to marketing by a generalist bank sales force. In Italy, for example, banks accounted for 76% of individual unit-linked life business in 2006, while in France, financial institutions accounted for 66% of single premium unit-linked life business in 2005. (Swiss Reinsurance Company-2007).

3.8.4 Client Segmentation

Most banks have a comprehensive customer segmentation strategy. In order to benefit the most from banks' distribution channels, insurers should understand the customer proposition in each segment and offer the right products according to the perceived characteristics. Listed below are the possible product offerings: (SIA Partners-2017)

Figure 19: Possible Product Offering for Various Segments



Source: Sia Partners, 2017

Bancassurance has traditionally targeted the mass market. Increasingly, bancassurers in mature markets are diversifying into other segments, including business customers and, in particular SMEs. Client segmentation is becoming increasingly important, resulting in tailor-made products for each segment based on customer needs. The ageing population in many markets is spurring bancassurers to focus on specific segments, such as pre-retirees and retirees. (Swiss Reinsurance Company-2007)

3.8.5 Adopting Alternative Strategies

An important determinant for the success of bancassurance is the relative strength of alternative distribution channels.

Figure 20: Alternative Strategies and Channels adopted

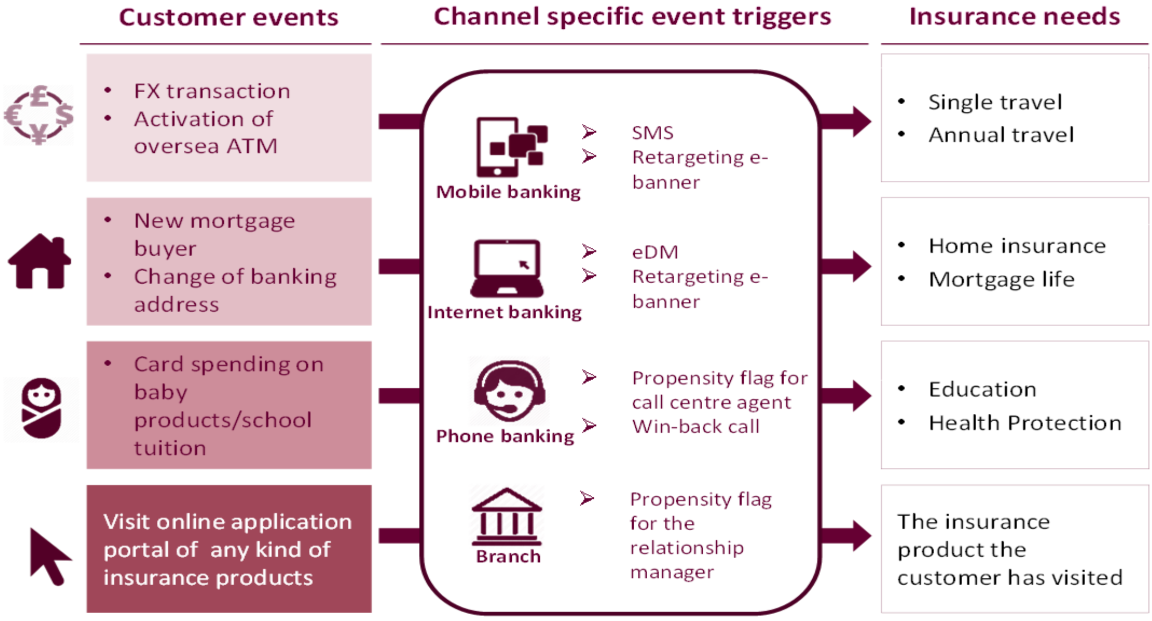
	"Typical" bancassurance model	Alternative strategies
Ownership	Successful experiences typically involve ownership links and a single supplier of insurance products	Less emphasis on ownership link (distribution only), implying multiple suppliers of insurance products
Clients	Banks' clients	Non-bank clients as well
Channels	More focused on one channel, being either bank staff or insurance agents	Multiple channels including the Internet, direct marketing, work-site marketing, etc.
Products	Predominantly simple life insurance products	More complex products as well as non-life products

. Source: Bancassurance: emerging trends, opportunities and challenges No 5/2007

3.9 Consumer Touch Points and Insurance Needs

Banks have numerous customer touch points, which brings knowledge on customer behaviors. However, banks might not be the best placed to identify the moments of insurance needs in which insurers have a key advisory role to play (SIA Partners-2017). Some of the effective event triggers are identified below:

Figure 21: Banks Customer Touch Points and Insurance needs.



Source: Sia Partners 2017

4 CONCLUSION

- ✓ The study revealed that bancassurance is well received in the market, not without some challenges and expectations.
- ✓ By end of 2016, we had 26 bancassurance agencies partnering with 47 Insurance Companies (16 life and 31 non-life)
- ✓ Distribution model emerged the most popular bancassurance model mainly due to its ease of adoption.
- ✓ All classes of insurance are underwritten through bancassurance
- ✓ Bancassurance distributed life business worth Ksh6 Billion representing 8.12% of total life business gross written premiums (73.92 Billion) in 2016 ; with an average growth rate of 36% in the past 3 years; and an average technical loss ratio of 32.4%
- ✓ Bancassurance distributed non-life business worth Ksh10.13 Billion. The Premiums represents 8.23% of total Ksh123 Billion gross written premiums in 2016 with an average technical loss ratio of 58.3%. Growth rate was at 55% in 2014; 30% in 2015 and marginal in 2016 at 1%.
- ✓ Motor insurance and credit life remains market leaders in bancassurance products, its popularity largely driven by the "easy target" bank customers obtaining car loans and personal loans.
- ✓ Banks and insurance companies need to adopt a more proactive approach to marketing.
- ✓ Trainings are scheduled monthly, with higher frequencies observed when several products are launched simultaneously. Insurance experts are invited over for the trainings to address technical aspects of the products. Trainings are largely theoretical with no practical sessions that are used to assess the level of understanding. Short assessment tests are also practiced.
- ✓ It emerged that there was a high correlation between successful products and IT integration in these products stakeholders welcome technology integration with bancassurance
- ✓ Supportive regulatory environment and favorable tax emerged as critical drivers of bancassurance in developed markets

5 RECOMMENDATIONS

5.1 Model

- ✓ The Distribution Model is what has taken root in the Kenyan market, but this study has revealed that there are several interests rendering the distribution channel ineffective. Strategic and long term bancassurance partnership and the fully integrated model are the key models that should be enhanced in Kenya to boost bancassurance as in the case of other successful jurisdictions like Spain, Brazil and France.

5.2 Products and Services

- ✓ Banks and insurance companies should design simple products which are easy to understand and therefore easy to sell.
- ✓ The products should also have simplified premium payment methods since premiums can be collected directly from bank accounts or payment through ATMs, check-off system, Online and Mobile solutions.
- ✓ Market research that involves direct interaction with the target market should be encouraged to ensure products developed meet the needs of the target market.
- ✓ Shared product development process between banks and Insurance companies can help develop new bundled hybrid products which are more in tune to the clients' needs.
- ✓ Borrowing from successful jurisdictions where life products takes a large pie, savings oriented and wealth management products is an area to explore.

5.3 Marketing

- ✓ Banks have a wider customer base and are more trusted compared to insurance companies. It is recommended that marketing to both existing and potential clients be undertaken aggressively, this can be achieved by integration of insurance products into bank sales management framework with sales targets. Joint marketing and sales campaigns should be a core part of their calendar.

5.4 Training

- ✓ Training should incorporate mandatory practical sessions where all class attendants participate in a supervised dummy sales pitch. Further, those who have been selling a product for a given period of time should undergo a review and refresher course to ensure that they are actually selling the product in the right manner. Insurance information should also be easily accessible by the sales personnel.

- ✓ As a recommendation, banks should introduce a control verification process where the client is taken through the terms and conditions by a bancassurance person different from the one who made the sale.

5.5 Technology

- ✓ Leveraging on technology can enhance better connectivity between banks and insurance systems- leading to improved information sharing and also quality and depth of consumer information captured.
- ✓ Technology can also help boost customer-centricity by developing products that can be sold from end to end via mobile and online platforms.
- ✓ Continuous collection and use of already existing customer data by use of analytics will enable insurance and banks be able to continuously improve their business practices, products and models and achieve strong competitive differentiation as a distribution channel.
- ✓ An online platform for rating sales personnel, can greatly improve industry image by having the customer rate the experience, this information should be available online like in the case of uber taxi driver ratings.

5.6 Role of Regulatory Bodies and Associations

- ✓ Enforcement of existing regulations
- ✓ AKI,KBA,IRA and CBK should speak in one voice about bancassurance and also jointly raise awareness of its existence and convenience to customers
- ✓ Continually do research and provide information on various distribution channels and providing recommendations on better practice to increase insurance penetration
- ✓ Recognize and encourage best practice of insurance distribution channels

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