

Association of Kenya Insurers

Group Life Seminar

October 2011

**Reaching The Uninsured
Through Alternative Distribution Channels**

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Structure Of Presentation

Reaching The Uninsured

**Defining the
Uninsured**

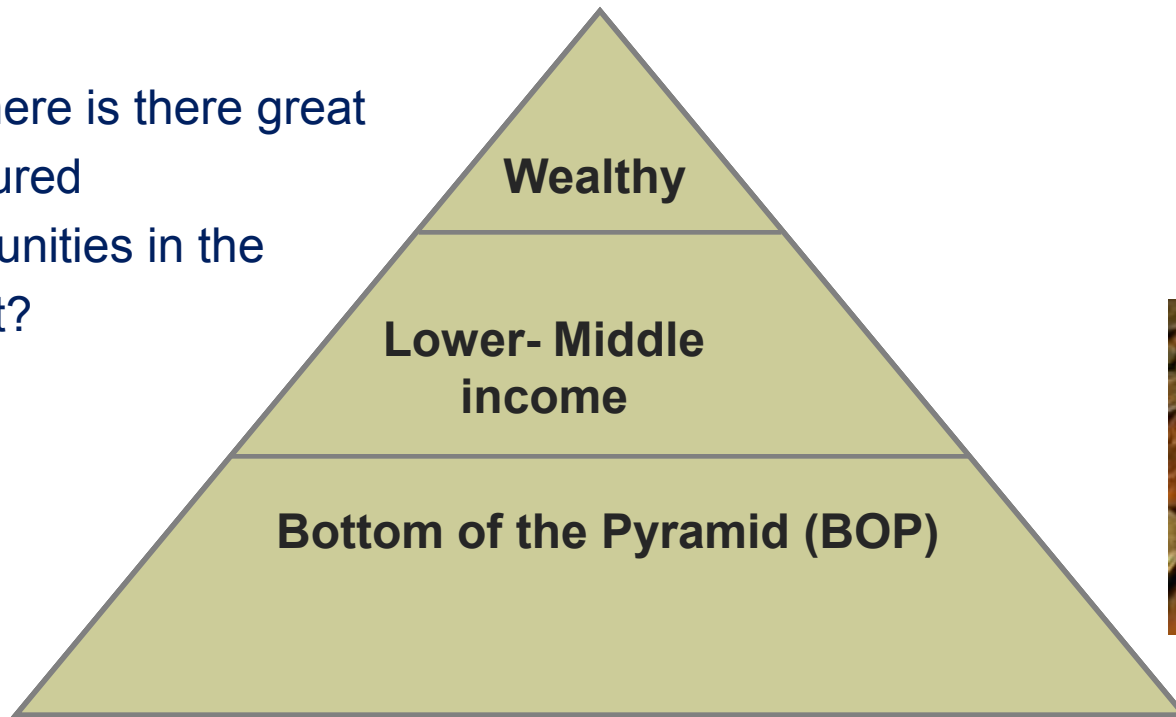
**Reaching
the
Uninsured
Through
Alternative
Channels**

**Creating
Strategies
For
Alternative
Channels**

Defining the Uninsured Market

- Distribution of wealth and the capacity to generate incomes in the world can be captured in the form of an economic pyramid

- Where is there great uninsured opportunities in the market?



Defining the Uninsured Market

- The main business problem is that most organizations focus on ready markets in the two top segments
 - *This results to an underserved low-end market which many large organizations may view as poor and not viable.*
- A long time ago two salesmen who came to Kenya from the first world exploring the market for shoes. When they got back:
 - *Salesman 1: Reported that there was no market for shoes as he found almost nobody wearing shoes*
 - *Salesman 2: Reported a huge untapped market for the same reason*
- What are the lessons here for uninsured market in Kenya?

The uninsured at the BOP

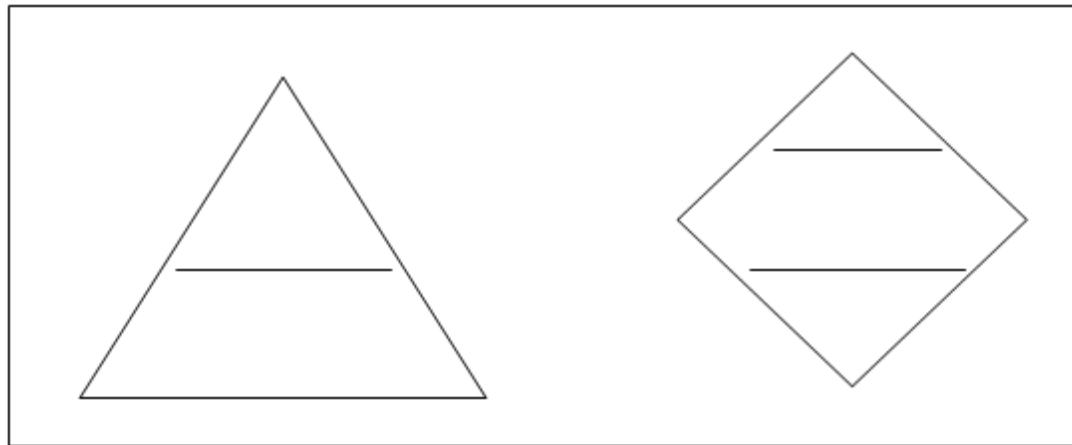
- The low income and informal sector market has little access to formal financial services for the management of risks.
- The poor engage in various types of risk pooling and informal insurance schemes to mitigate risks

– e.g. clan welfare association groups to help share burial costs.

For frequent risks that require expenditures of small sums of money, such as sickness, people often draw upon their informal groups such as the extended family and friends. Kenyans sometimes use fundraisers or “harambees” to mobilize large sums of money required for hospitalization or surgery (as well as other expensive activities like weddings).

Moving From Pyramid (In-insured) to the Diamond (Insured)

- The pyramid must become a diamond
- The economic pyramid is a measure of income inequalities. If these inequalities are changing, then the pyramid must morph into a diamond
- A diamond assumes that the bulk of the population is middle class



Will you be at the heart of the Diamond?

Reasons for Lack of Insurance

- **Cost of premiums** –This is a critical ingredient in any product and is also linked to the willingness to pay.
- **Lack of information On Insurance** -Many people lack information on the existing insurance covers, the types of risks to be insured and the processes of lodging a claim.
- **Competition with other investments** -Insurance products are often seen as providing low returns hence resulting in people preferring other investments like cooperatives, listed shares, land, merry go rounds etc.
- **Premium collection Process**-The premium collection process is an important consideration in covering the uninsured market especially those in the informal sector.
- **Claim payments** -Customers lack understanding on the importance of the submission of claim documents for quick settlement of claims.
- **Marketing** -Most potential customers are unfamiliar with insurance. There is a lack of disposable incomes in the low income markets.
- **Designing of Products**-It is realistically not possible to design a product that pleases every potential client.

How to target the un-insured market

Strategic partnerships

- Partner with other influencer groups to enhance penetration e.g. trade unions; **COTU**, FKE, KAM, Jua Kali sector etc.
- These partnerships can also be used as forums for education the various target groups

The role of government

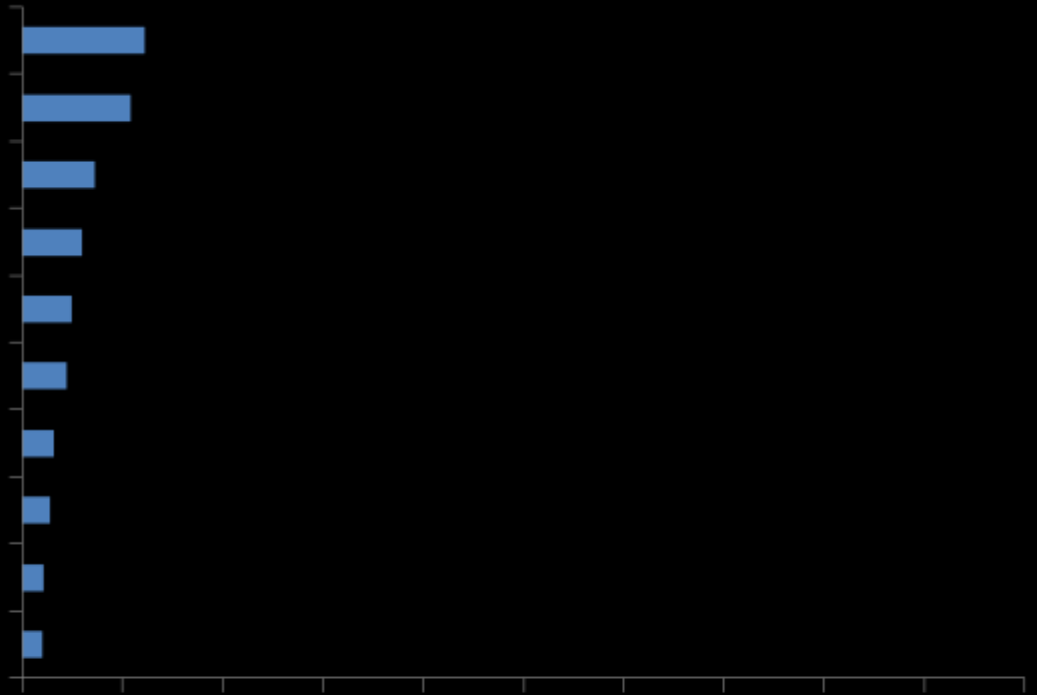
The government should give guidelines about their expectations of employers in terms of advice and support.

Segmented marketing

- Marketing activities should target niche market segments as each has special needs, including informational gaps.

Alternative Distribution Channels

Alternative distribution channels as suggested by Policyholders



Potential for Alternative Distribution Channels

- Recent technological and communication advancement, banking sector advancement and advancement in internet warrants a relook at more distribution channels
- Agents and brokers will still remain a major distribution channel due to complexity of insurance and products that require human intervention
- Other channels that would be suitable for the Kenyan market are;
 - *Banks*
 - *Internet/Email*
 - *Worksite marketing*
 - *Partnering with NGOs/ other community based organizations*
 - *Telemarketing*
 - *Virtual marketing*
 - *Invisible insurer*

Viabile & Cost Effective Distribution Channels

- *Increase Branch network:*

Can be done by opening branches in viable locations in major towns.

- *Use Mobile Branches:*

Insurance services can be taken to the people by having a mobile office on a weekly basis to offer all Services to customers and reduce their expense on time and travel to headquarters.

- *Partnerships with Micro finance institutions / NGO:*

Insurance companies can partner with institutions that have been successful in providing financial services to low income earners.

- *Partnerships with Large supermarkets:*

Companies can take advantage of the large customer base in supermarkets to set up kiosks to reach the potential customers. Insurance companies can also offer discounts to customers who purchase products through the supermarket e.g. discounted rates on domestic package insurance to customers who purchase electronics or furniture.

Viabile & Cost Effective Distribution Channels

- *Bancassurance:*
Can be achieved through a distribution alliance between an insurance company and a bank. Banks have the advantage of a large customer base and better reputation than insurers.
- *Internet:*
Simplification of products and posting information on company websites can result in more reach.
- *Direct Marketing/ telemarketing:*
Can be done through telemarketing through call centres.
- *Salaried Company officers:*
Can be employed to sell insurance directly as customers prefer dealing with the company directly

Bancassurance

- Bancassurance has been embraced by a few banks (i.e. Equity Bank, National bank and family bank).
- There is need to develop this channel further in order to get optimal benefits.

Why Bancassurance?

- Banks have a good reputation thus they are more trusted. This can booster public confidence
- Banks have vast customer data bases as opposed to insurance companies thus can reach more clientele through cross selling
- Banks also have adequate technological and capital resources
- Traditional Agency Model Problems i.e. high start-up/fixed costs, and under-serving of middle-tier consumers
- Allow insurers access to banks' customer network to distribute mass-market products

Benefits of Bancassurance

Banks

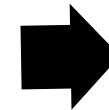
- **Commissions from insurance sales augment fee-based income/ greater income stability**
- **Generate cross-sell opportunities**
- Provide integrated financial services to cater to customers' entire financing requirements thus Increase customer retention
- Expanded product offerings
- More productive use of customer database and branch network

Insurers

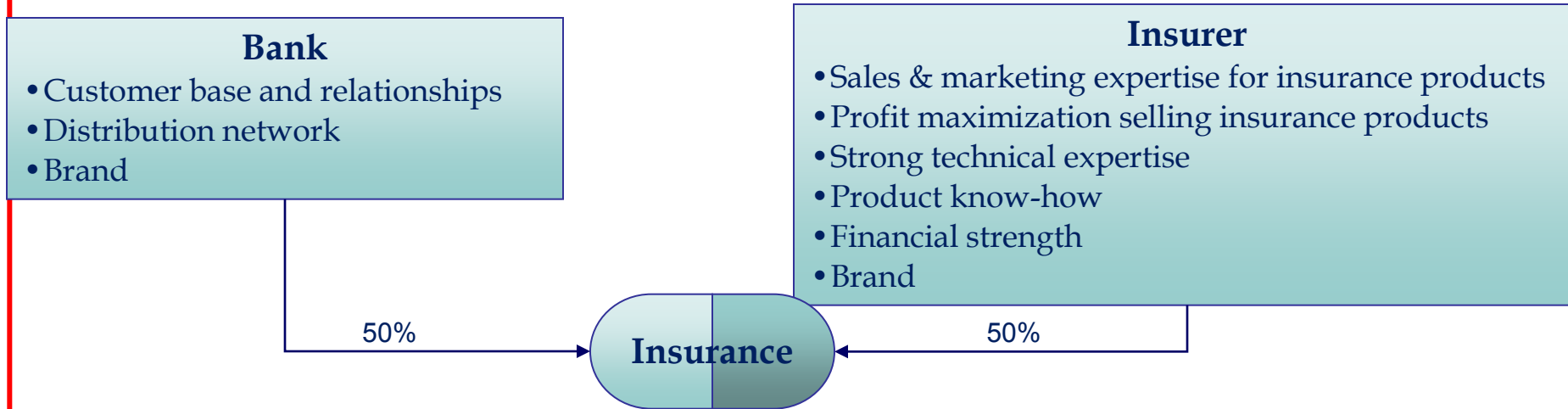
- Leverage banks' customer bases, branding and reputation
- Expanded customer base which will eventually lead to increase in market penetration
- Improved sales effectiveness & after sales service
- Lower distribution costs
- Combine cost saving & increased profitability
- Enhance ability to segment markets to support more effective product design and marketing efforts
- Immediate access to new markets
- Develop new financial products more efficiently
- Reduce reliance on traditional distribution channels

Customers

- Convenience/ one stop shop/ access to a wide range of financial services from single provider
- Competitive prices of insurance products as a result of insurers passing on cost savings arising from lower distribution costs.



Who Will Bring What to the Partnership?



Malaysia Case

- The penetration of insurance (in Kenya) at 2.63% of the GDP is very low compared to other countries in Africa such as South Africa which has a penetration of 9.94%.
- In Malaysia, it is estimated that 41% of the population have some form of life insurance in comparison to Kenya that has less than 1% of the population insured.

An illustration of the growth of alternative distribution channels in Malaysia from 2002 to 2005.

2002	76.0	21.0	3.0
2004	47.0	48.0	2.0

Internet

- Use of internet has increased exponentially worldwide over recent years penetrating daily life as the prime technology for information dissemination and communication
- From the late 1990's European companies have been offering life insurance products online
- Although they are yet to see a significant impact from this channel, Spain and the UK as well as Australia have been using the internet to gather information
- Research shows that in the UK, selling the products online generated 40% of new business in car insurance business in 2008 and was likely to have exceeded 50% of the total sales in 2009, according to EMB, an actuarial consulting company. **(Source: Business Daily January 13th 2010)**

Benefits

- **Cost efficiencies**
- **Wider penetration**
- **Heightened visibility**

Telemarketing

- Telemarketing is the process of selling, promoting or soliciting a product or service over the telephone.
- Telemarketing is emerging as a prominent channel in Asian countries i.e. Vietnam and Thailand
- In Filipino, some insurers have partnered with Telecom companies to bundle sales of mobile phones with special low premium and easy to understand life insurance policies
- Benefits:
 - *Insurers – access Telkom companies distribution network*
 - *Telkom – gain detailed information on customers*
 - *Opportunity to increase customer loyalty*
- The biggest advantage of telemarketing is that it involves human interaction that facilitates an immediate feedback mechanism.

Partnering with Community Based Organizations

- Appropriate for Micro insurance which is characterized by low premium and is accessed by the low income population.
- In India, micro insurance is distributed through microfinance institutions.
- These products can also be distributed through partnerships with non-governmental organizations to identify and appoint micro agents who are mainly women within self-help groups. This model has also been successful in India.

Invisible Insurer

- This is where, the insurance company or its representative is not the entity marketing the products.
- The insurance cover is sold as an add-on product leveraging the brand of the retailer.
- The risk is carried by the insurance company, which underwrites it.
- This model can reach various market segments e.g. crop insurance for agricultural loans.

Virtual marketing

- Virtual marketing involve the use of electronic kiosk stands whereby the customer enters basic information such as name, gender, type of policy and amount to be insured and the system generates a quote.
- The customer has the option to approve and make a payment.
- This is an ideal method of selling complementary policies to existing services e.g.
 - Travel insurance terminals placed at airports and bus stations
 - Motor insurance terminals placed at petrol stations to enable people renew their car insurance or get a new quote while on the road
 - Health insurance terminals placed in hospitals
 - Kiosks in shopping malls offering multiple life/non life insurance products
 - Banks selling insurance products through ATMs

Benefits of Adopting New Channels

- Growth in business
- Increased uptake of insurance as Bancassurance can uncover un-insured markets by current channels

Creation of Alternative Channels - Strategies

- Develop simple stand alone products that can be easily sold through other channels. Current products are complex and can only be sold through conventional channels that are human driven
- Educate employers and employees about the products and services available so that they can exploit the worksite marketing channel.
- Develop more micro insurance products that can be sold through Partnering with Community based organizations
- Invest in more innovation and investment in technology to enable them take full advantage of emerging channels
- Insurers can enter into distribution agreements with banks whereby banks may promote insurance products of its bancassurance partners



Q&A session



Some people know how to listen more than others