



# **Potential Distribution Channels for Insurance Business in Kenya Executive Summary**

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## **EXECUTIVE SUMMARY**

The penetration of the Kenyan insurance industry stands at 2.63% of the GDP. This is considered to be very low compared to other countries in Africa such as South Africa which has a penetration of 9.94%. The penetration of insurance among the Kenyan population is also low as compared to other countries. A good example is Malaysia which has an estimated 41% of the population covered by some form of life insurance in comparison to Kenya that has less than 1% of the population insured.

The low uptake of insurance among the Kenyan population has been partly a result of using limited channels to sell insurance products. The Kenyan insurance industry has been relying heavily on agents and brokers to sell insurance products. Since the agent and broker led channels have failed to achieve significant penetration of insurance; there is need for the insurance industry players to adopt new and more efficient channels. This realization made the Association of Kenya Insurers (AKI) commission a survey aimed at investigating the current and potential channels of distribution locally and internationally.

In conducting this survey, various insurance industry players, potential and current distribution channel players and members of the general public were interviewed. Secondary data was also extensively reviewed in order to extract learning's from other countries.

Both qualitative and quantitative approaches were employed to collect primary data for the survey. The qualitative approach involved conducting focus groups and in-depth interviews while the quantitative approach involved use of interviewer administered questionnaires.

Survey findings revealed that the existing channels have various advantages and disadvantages. Brokers for instance have expert knowledge thus act as consultants representing clients. The fact that brokers do not pledge allegiance to any insurance company also make them able to offer unbiased advice. Their main weakness is that

Since they are paid on commission, the temptation to place a clients business where they will earn the most commission is high.

Insurance industry players and members of public alike feel that although the existing channels have existing efficiencies, there is need for the Kenyan insurance businesses to adopt new channels. They also recommend that the existing channels should be retained in order to exploit the existing efficiencies. Other channels that are seen to have high potential are;

- Bancassurance,
- Internet,
- Worksite marketing,
- Telemarketing,
- Partnering with NGOs and other community based organizations,
- Invisible insurer,
- Virtual marketing,
- Metamediaries and
- Micro insurance

Proponents of Bancassurance argue that banks are a good channel of selling insurance products because they have a good reputation thus they are more trusted. Banks also have vast customer data bases as opposed to insurance companies making it easy for them to reach more people by way of cross-selling bank products and insurance products. Another advantage is that banks have more advanced technology and capital resources as compared to insurance companies. Bancassurance has been embraced in countries such as France, Japan and the United Kingdom with tremendous success. In carrying out this survey, learning's on Bancassurance were extracted from Malaysia and South Korea.

Internet as a distribution channel for insurance products is perceived to have great potential due to the technological advancements that have seen increasing use of online transactions. This survey extracted learning's for internet as an insurance distribution channel from the UK.

Other channels that can increase the penetration of insurance in Kenya if adopted by Kenyan insurance business are worksite marketing which can leverage on the

high trust factors among employees and employers; partnering with community based organizations to derive benefits from their established networks amongst communities; telemarketing which is currently used in china, Indonesia, Vietnam and Thailand; Virtual marketing and the invisible insurer.

The adoption of new channels in Kenya would be faced with many challenges. These challenges could be legal, professional, technological and the lack of appropriate products. Insurance businesses would therefore be required to device ways of overcoming these challenges in order to exploit the benefits of new channels.

In view of the survey findings, the following recommendations have been derived;

- The insurance industry should retain the existing channels due to their efficiencies and complexity of insurance products that require human intervention.
- There is need for the insurance business in Kenya to explore alternative channels so as to increase the level of penetration within the market. Some of the alternative channels with high potential in the Kenyan insurance market are; Bancassurance, internet led channels, worksite marketing, telemarketing, partnering with community based organizations, invisible insurer and virtual marketing.
- The Kenyan insurance industry should develop simple stand alone products that can be sold easily through other channels. This is because the existing products are complex and thus need human led channels such as brokers and agents.
- The Kenyan insurance industry should also develop more innovative products that can be sold through other channels.
- The Kenyan insurance industry should invest more in technology to enable them take full advantage of emerging channels.
- The Kenyan insurance industry should advocate for legal amendments to the law to allow adoption of other channels.