



INSURANCE REGULATORY AUTHORITY

Assessment of Adequacy of Information Disclosed to Insurers by Insurance Customers

Report Prepared By

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EXECUTIVE SUMMARY

The effectiveness and efficiency in offering insurance services is dependent on the quality and versatility of information disclosed to insurers or their intermediaries by policyholders. This even more important for life insurance policies given the key role insurance plays in offering financial stability and peace of mind to the insured in the event of an unexpected death.

It is generally acknowledged that disclosure of information in any contract is vital in informing right decisions. Information disclosure on basic issues is essential. This is becoming discerningly more important because consumers are now facing greater financial insecurity, including unemployment and health issues. Due to this there is need for better regulatory standards on marketing of insurance products including disclosure.

In as much as policyholders are expected to disclose information which in their opinion is relevant and informing the kind of insurance coverage offered, insurers too have a symbiotic responsibility and undertaking to disclose information. Insurers are also expected to make disclosures about the policy with regard to purpose, certification and maintenance, and disclosure statement in exchange for premiums. This helps eliminate or minimize information asymmetry especially at the point of making decisions to buy or sell an insurance policy.

The policyholder is usually is expected to disclose all information necessary in order to receive the full benefit of the policy. As with any other contract life insurance contract is based on adequate disclosure of information between contracting parties. For the insurer to properly understand the needs of the customer, necessary information needs to be gathered and utilized the purpose of dispensing insurance services.

Due to its long term nature and the significant contribution to the rest of the economy, life insurance acts as a vehicle for long term savings as the savings of individuals are aggregated and then invested in the real economy mainly in the

form of debt and equity instruments. Long term policyholders should therefore be at the fore when it comes to adequate disclosure of information. This is a major building block of market discipline that remains an area of concern to the regulator.

In order to help enhance understanding of existing information disclosure practices among long term policyholders, a study was commissioned by the Authority with the objective of documenting current information disclosures to insurers in order to help give recommendations on ways of enhancing information disclosure by policyholders. The study covered policyholders of eight life insurance companies resident in Nairobi.

From the findings of the study, most of those interviewed indicated that insurers do insist on the need to provide correct and adequate information and that the information asked is easy to provide. For the case of medical insurance, only 42% of the respondents were requested for their medical reports and out of which only sixty one percent were asked to visit a specific doctor before being sold a medical policy which implies that not much emphasis is placed on medical history and condition as a consideration for providing cover by life insurance companies.

A common denominator in all proposal forms was age. This remains a major requirement before buying insurance with all respondents indicating having been being requested to state and proof their age. The study however established that from the proposal forms, age and not date of birth was at times requested. Most of the customers, about fifty four percent indicated they personally filled their proposal forms while the rest were assisted by insurance agents. Language was not a barrier as most of the customers taking life insurance products are the working class and therefore well versed with English and Kiswahili.

Despite the policyholders being the working class, about eighty nine percent, sought clarifications from the agents for more information. A key observation was that of the clarifications sought, answers were provided in a technical jargon that

could not enable them make an appropriate decision to buy or not to buy insurance.

The study also established that over 80% of the respondents were sold the policy by an insurance agent and therefore learnt of the policy from the agent (60%). This shows that agents remained the main channel of distribution and therefore playing a key role in disclosure of information. There is therefore need for concerted efforts to be put in place to ensure that agents' capacity to sell insurance and extract relevant information from policyholders is enhanced as they are the face or interface between the insurers and the customers. The major complaint was that there was a lot of usage of technical insurance terms.

Although proposal forms are developed by insurers and mainly by the Underwriting Department, only a few frequently revised them. Over fifty percent had not reviewed the proposal forms in the last three years by the time of the study and it was also observed that most of the proposal forms are generic, meaning that they are used for most of the life products. They are not tailor made to suit particular products and client needs. Further, the study shows that customer information for long term policyholders is seldom updated.

The study therefore recommends the need to encourage use of clear, transparent and plain language on policy proposals that is standard and comparable across all insurance providers. Survey respondents indicated that insurers should be required to prominently display a summary of key terms and conditions of the product and explain their implications to the policyholders. Among the information they consider necessary to be adequately disclosed is product value, period of the agreement, any fee and charge including broker fees, the premiums, repayment period, frequency and when due etc.

Although policyholders voluntarily give information, measures need to be put in place to ensure that relevant and adequate information is disclosed i.e. what a "prudent insurer" would consider relevant while keeping in mind the evolving consumer protection framework.

LIST OF ABBREVIATIONS AND ACRONYMS

DEFINITION OF TERMS

Agent” means a person, not being a salaried employee of an insurer who in consideration of a commission, solicits or procures insurance business for an insurer or broker

“Broker” means an intermediary concerned with the placing of insurance business with an insurer or reinsurer for or in expectation of payment by way of brokerage, commission for or on behalf of an insurer, policy holder or proposer for insurance or reinsurance and includes a health management organization; but does not include a person who canvasses and secures reinsurance business from or to an insurer or broker in Kenya so long as that person does not undertake direct insurance business and does not have a place of business, or a resident representative, in Kenya;

“Insurer” means a person registered under this Act carries on insurance business and includes a reinsurer;

“Insurance Business” means the business of undertaking liability by way of insurance (including reinsurance) in respect of any loss of life and personal injury and any loss or damage, including liability to pay damage or compensation, contingent upon the happening of a specified event,

Life Assurance” and **“Life Assurance Business**” mean the business of, or in relation to, the issuing of, or the undertaking of liability to pay money on death (not being death by accident or in specified sickness only) or on the happening of any contingency dependent on the termination or continuance of human life (either with or without provision for a benefit under a continuous disability insurance contract),and include a contract which is subject to the payment of premiums for term dependent on the termination or continuance of human life

and any contract securing the grant of an annuity for a term dependent upon human life;

Policy”-In relation to ordinary life assurance business or industrial life assurance business, includes an instrument evidencing a contract to pay an annuity upon human life;

Policy Holder” means the person who for the time being is the legal holder of the policy for securing the contract with the insurer;

Premium” includes the consideration for the granting of an annuity;

Ordinary Life Assurance Business” means life assurance business, being business of, or in relation to, the issuing of, or the undertaking of liability under, ordinary life policies;

Ordinary Life Policy” means a policy of life assurance other than a policy of industrial life assurance;

CHAPTER ONE

1.0 Introduction

This chapter contains background of the study, the research problem, specific objectives, the scope and limitations of the study.

1.1 Background of the Study

For many families, a life insurance policy is necessary for financial continuity in the event of an unexpected death. The policyholder in seeking to buy an insurance policy is usually expected to disclose any and all information necessary that will enable an intermediary provide relevant advice. In the same vain insurer is also expected to make disclosures about the policy.

As with any other contract, a life insurance contract is based on adequate information disclosure between contracting parties. For the insurer to properly understand the needs of the customer, necessary information has to be disclosed by the policyholder. It is against this backdrop that the regulator needs to promote information sharing and exchange in order to improve services offered and adequately complement financial services. In addressing the critical role that life insurance plays it is important to appreciate the level of information disclosure by customers against what is required by insurers.

Literature is awash of information on key considerations for disclosing information. Key among these issues is required is purposes of disclosure which helps the policyholder understand what he is getting into, disclosure statement which outlines cost and coverage provided including a rider stating that the disclosure portion does not alter or modify the policy that has been issued to guard against misinterpretation of the policy.

Other information required in the certification and maintenance of the policy. A disclosure statement must be given no later than the time it was signed by the insurance applicant. Moreover, the certification of a disclosure statement's delivery is usually required to be kept on file for a certain amount of time. Most jurisdictions mandate the disclosure be kept on file for at least three years (In the case of Kenya seven years) or until the next regular examination by insurance authorities. Such a disclosure verifies that the agreement is legitimate and that all parties have signed off on the agreement with full understanding of the requirements.

1.1.2 Relevance of Insurance Disclosure to Economic Development

The importance of the insurance industry to national development and especially achievement of Vision 2030 policy objectives is clearly set out in various government policy documents. The industry as we know it is important as it helps transfer risks away from the insured to the insurer. By helping transfer risks, insurance enables the insured to undertake projects or engage in economic activities and transactions that they would otherwise not have been willing to engage into due to the risk involved.

Further, insurance manages risk by pooling exposures such that aggregate losses are ultimately shared across the economy. This applies more so for long term insurance as life insurers remain one of the major investors with funds being invested in the real economy mainly in the form of debt and equity instruments.

Due to its long term nature and the significant contribution¹ to the rest of the , life insurance is at the fore when it comes to demanding disclosure of accurate and reliable information at the time of making a decision to buy or sell insurance. In essence, this is a major building block necessary for enhancing market discipline.

¹ According to the World Insurance Report, with nearly USD 19 trillion, life insurers hold almost five times the financial assets of non-life insurers. However, roughly three quarters of insurance investments are held in Europe and the United States. Due to its significant contribution to financial assets, the insurance business requires adequate disclosure by both the insurer and insured.

Whereas insurance customers are willing to provide requisite information that will enable an insurer to provide cover, insurance companies need to make deliberate efforts to acquire customer data. This will enable them to properly profile customers and their associated risk exposures and seek to provide appropriate products and insurance coverage hence the thesis of this study. It is expected that when insurance companies obtain all relevant and accurate information, the same will go along way in serving the insuring public adequately.

1.3 Statement of the Problem

The Kenya Vision 2030 and other government policy documents recognize that the insurance industry in Kenya has great potential for growth. A number of enablers of growth for the industry are identified and which when adequately addressed will help enhance insurance penetration.

The growth of the industry is highly dependent on the effectiveness and efficiency of the policy issuers have in meeting their obligations. This is heavily reliant on sufficiency of information obtained unsolicited or solicited.

Transparency among market participants, is reinforced by availability of relevant information. Without sufficient information to aid in decision making, the various players in insurance demand and supply chain may make decisions that are not in their best interest. This can have negative individual, market and social implications and remains one among other reasons that the industry partly suffers from negative.

When policy issuers do not receive adequate and relevant information from their customers, this may lead to poor risk management. Many cases have arisen where upon making claims it becomes apparent that the insurer had not taken due consideration of all relevant information before providing cover and even in pricing of the product or service.

Given the foregoing and the need to minimize information asymmetry, this study was conceived.

1.4 Objectives of the Study

The objective of the study was to assess current practices in term of disclosure of information by policyholders when entering into an insurance contract.

Specific Objectives included;

- i) Identify current practices with regard to disclosure of information by insurance customers
- ii) Identifying/profile pros and cons of existing requirements on information disclosure by customers viz a viz best practices
- iii) Giving recommendations on ways of enhancing disclosure of information to insurers by policyholders

1.5 Justification of the Study

Customer Information disclosure plays a pivotal role in any insurance contract. The depth, breadth, validity, consistency and reliability of the data provided to the insurer does provide an opportunity for the insurer to identify insurers needs, advice on appropriate product, define payment terms and benefits among others. It is on the basis of this that this study was commissioned with particular focus on long term business.

1.6 Scope of the Study

The study covered eight life insurance companies all of them licensed by the Insurance Regulatory Authority to transact insurance business in the year 2012. The respondents were mainly in Nairobi although those in the outskirts of Nairobi were contacted and interviewed on phone. This study sought to limit itself to life insurance for a start to give direction to the other sectors that have more varied information and data.

1.7 Limitations of the Study

A key limitation of the study was unwillingness of respondents to be interviewed with the assumption that they were being sought to buy an insurance policy. Therefore a lot of persuasion effort was expended in bringing the customer to understanding the usefulness of the research. In addition some insurance companies were sceptical and were not willing to disclose customer contact details as part of ring fencing and warding off competition. With assurance of confidentiality of information coupled with an introduction letter from IRA, the insurance companies did provide information including replacements of respondents who could not be traced with the contacts provided.

Initially, data collection was planned to take ten days. This was not possible because each insurance company provided the study team with an average of forty five customers initially. Most of these customers were not accessible and compelled the study team to request additional customers' lists from the insurers. As a result, the process took longer than anticipated leading to delayed field work, in addition, it was also planned that the study would contact at least 32 customers per insurance company. We also had a challenge in obtaining the targeted sample size per insurance company. This is because for some companies it was generally difficult to access customers through the telephone numbers provided. This did not however affect the validity and reliability of the research findings as the sample obtained was sufficient for the research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter contains the review of the relevant documents on customer information disclosure. It seeks to give an overall understanding of the extent of disclosure requirements and practice.

2.1 Disclosure in an Insurance Policy

Disclosures ensures both parties are aware of potential consequences of their agreement and the actions arising thereof. This is because an insurance policy is a contractual obligation and may contain aspects that one party and mostly the buyer may not understand yet there are many disclosures involved. Since adequate disclosure is important in an insurance contract and defines the relationship between insurer and the insured, it is important that one understands provisions therein and provides correct information.

2.2 Effects of Non-disclosure

Although family members are required to notify an insurance company upon the death of a policyholder, this seldom happens as it is estimated more than 25% of policy benefits are not paid on death of the insured. This arises mainly because heirs often aren't aware a policy exists, or don't know how to find it.

By law or practice, missing or unknown life insurance policy benefits and unclaimed compensation are held in trust until claimants come forward. Little effort is made to locate lost heirs, and they can be difficult to trace. When missing heirs fail to claim policy benefits after death of the insured, unclaimed life insurance policy cash and benefits are appropriated by insurance companies or held in trust until claimants come forward. But little effort is made to locate lost heirs and they can be difficult to trace, due to name changes after marriage or divorce, an unreported change of address or expired postal forwarding order after a move, and incomplete or illegible records.

2.3 Illegitimate Claims

It makes a stressful situation all the more difficult if the insured tries to make a claim and discover that he/she are not covered simply because the policy terms were not understood or relevant information disclosed. The onus lies on the insurer to make sure they are asking the correct questions, and on the customer to make sure they tell the truth and give all the information required.

2.4 The Disclosures Required in Life Insurance

Applying for life insurance requires the disclosure of multiple aspects of an insured's personal history. For insurer to properly assess the financial risk posed by the insured, information that would otherwise be considered private and confidential must be revealed in order for proper and accurate analysis to be conducted. This information may include medical history, family history, criminal history, driving history etc

2.5 Legal Requirements of Customers Disclosure

The Insurance Act Cap 487 of the Laws of Kenya is the supreme legal document governing the insurance business in Kenya and provides details on disclosure of information by policyholders (See section 80 – 86). The Act requires a proposal and policy documents not to be misleading due to anything inaccurate or incomplete or likely to mislead a proponent or policy. Such a form may be objected by the regulator and the insurer shall not accept a proposal or issue any policy or written matter if the proposal, policy or written matter is in a form to which the regulator has objected (Insurance Act, Sec 80).

The Act further states under Sec 81 that where incorrect statements in proposals are made by customers, a policy of life assurance shall not be voided by reason only of an incorrect statement made in a proposal or other document on the faith of which the policy was issued or reinstated by the insurer, unless the statement was material to the risk of the insurer and was made in the knowledge that it was untrue or with no reasonable belief that it was true; or was made within the period of three years immediately preceding the date on which the policy is sought to be avoided or the date of the death of the life insured, whichever is the earlier.

At the same time where an agent or servant of an insurer writes or fills in, or has before the appointed date written or filled in, any particulars in a proposal for a policy of insurance with the insurer, then, notwithstanding any law and any agreement to the contrary between the proposer and the insurer, a policy issued in pursuance of the proposal shall not be avoided by reason only of an incorrect or untrue statement contained in the particulars so written or filled in, unless the

incorrect or untrue statement was in fact made by the proposer to the agent or servant for the purposes of the proposal (section 81). The Act therefore places heavy burden on the insurer to ensure that correct statements are made.

Particulars as to age of proposer for life assurance are mandatory and the proposal form should be framed so as to require a person making a proposal for a policy of life assurance to specify the place and date of birth of the person whose life is proposed to be assured, and the person making the proposal shall supply those particulars to the best of his knowledge and belief (section 83).

Notice regarding proof of age where an insurer issues a policy of life assurance which provides the proof of age of the life insured is a condition precedent to the payment of the sum assured, the insurer should, unless the age of the life assured has already been admitted by it, issue with the policy a printed notice stating that proof of age of the life assured may be required prior to the payment of the sum assured (section 84). The insurer may be compelled to accept proof of age by the regulator where proof is provided on or after the appointed date (section 85).

Misstatement of age does not necessarily void a policy of life assurance. Where the true age as shown by the proofs is greater than that on which the policy was based, the insurer may vary the sum assured by, and the bonuses (if any) allotted to, the policy so that, as varied they bear the same proportion to the sum assured by, and the bonuses (if any) allotted to, the policy before variation as the amount of the premiums that have become payable under the policy as issued bears to the amount of the premiums that would become payable if the policy has been based on the true age. Again, in this case the burden is placed on the insurer and it is incumbent upon the insurer to ensure correctness
GoK, 1987

2.6 Disclosure Requirements under Corporate Governance Guidelines for Insurance and Reinsurance Companies

On policyholders' Protection Functions the corporate governance guidelines places on the Board of insurers the responsibility of developing a mechanism of keeping the policyholders well informed and educated about insurance products, claims and complaint-handling procedures and in particular to; Ensure adequacy of disclosure of “material information” to the policyholders. These disclosures shall, for the present, comply with the requirements laid down by the Authority both at the point of sale and at periodic intervals during the subsistence of the insurance contract; Put in place proper procedures and effective mechanism to address complaints and grievances of policyholders; Ensure compliance with the statutory requirements as laid down in the regulatory framework; Review of the mechanism at periodic intervals; Review the status of policyholders’ complaints at periodic intervals (IRA, 2012).

2.7 Disclosure Requirements under Guidelines on Insurance Products

Article 10 Guidelines on Insurance Products on disclosures involves provision of appropriate and adequate information. The insurer or intermediary shall take reasonable steps to ensure that a customer is given appropriate information about a policy in good time and in a comprehensible form so that the customer can make an informed decision about the arrangements proposed.

The insurer or intermediary shall ensure that; Customers are appropriately informed before and at the point of sale to ensure that they make informed decisions before entering into a contract; Information provided is clear, fair and truthful; Product information shall be provided in writing or any other durable medium; Product features disclosed shall among others include the name of the insurer, type of insurance contract on offer including benefits, level of

premium, period for which the premium is payable and consequences of late or non-payment of premiums;

Where a product is a bundled product, the premium for each benefit (both main and supplementary) shall be disclosed separately; The type and level of charges to be deducted from or added to the quoted premium shall be disclosed; A description of the risk covered by the insurance product and any excluded risks shall be disclosed;

Prominent and clear information on significant or unusual exclusions or limitations such as excesses, surrenders, moratorium periods, deferred payment periods and exclusion of certain conditions, diseases or pre-existing medical conditions shall be disclosed; Illustrative surrender values showing what would be payable in the first three years if the policy is surrendered shall be disclosed; Upon request an intermediary shall disclose the amount of commission and, or fee paid by the insurer under any relevant insurance product the customer is buying; The intermediary and or customer shall disclose to the insurer all material facts relating to the risk exposure being insured.

2.8 Proceeds of Crime and Anti-Money Laundering Act 2009

According to the AML Act and an insurance company is recognized as a financial institution carrying out underwriting and placement of life insurance and other investment related insurance. Financial institutions are reporting institutions. The Act clearly states that a reporting institution shall undertake customer due diligence on the existing customers or clients in addition to all new customers.

A reporting institution under the Act should have regulations that require reporting institution to exercise due diligence and take reasonable measures to satisfy themselves as to the true identity of any person seeking to enter into a business relationship with them, or seeking to carry out a transaction or series of

transactions with them, by requiring the person to produce an official record reasonably capable of establishing the true identity of the person. IRA is recognized as a supervisory body that is expected to ensure that the act is complied with.

The Act requires that customer identification documents shall be retained for at least 7 years after an account or transaction is closed. All financial transaction records shall be retained for at least 7 years after the transaction has taken place. No accounts should be opened or transactions be entered without satisfactory identification and documentation:

To comply with the above Act then the following information is necessary; For natural persons the following should be obtained by an insurance company: Legal name and any other names used, correct permanent address, Telephone number, e-mail address etc, Date and place of birth, nationality, Occupation or public position held and or name of employer, an official personal identification number, passport, identification card, driving licence that bears a photograph of the customer, type of policy and nature of insurance relationship, signature.

The insurance company should verify this information by at least one of the following methods; Confirming the date of birth from official documents, Confirming the permanent address, Contacting the customer by telephone, by letter or by e-mail to confirm the information supplied after a policy account has been opened, Confirming the validity of the official documentation provided through certification by an authorized person.

It is however, important to stress that this customer acceptance policy will not be restrictive that it results in a denial of access by the general public to insurance services, especially for people who are financially or socially disadvantaged. These underlying principles of customer identification for natural persons will have equal application to customer identification for all outlets.

Generally the above should be addressed in KYC policy and regulation. The purpose of Know Your Customer (K.Y.C.) Policy is; to help Insurance companies manage effectively money-laundering risks, by reducing the likelihood that the company will take on a money launderer as a new customer. This should decrease the likelihood that the company will become a victim of illegal activities perpetrated by customers; increasing the likelihood that the company will detect the misuse of her products and services for money laundering. Effectiveness of this policy will protect the good name of insurance companies and their reputation both locally and internationally;

As a good corporate citizen, KYC information also helps the regulator to decide whether to initiate and pursue an investigation. Information that should be collected should include the purpose and reason for establishing the insurance relationship, the anticipated level and nature of the activity that is to be undertaken, the various relationships of beneficiaries, the expected source and origin of the funds to be used in the relationship, details of occupation/employment, sources of wealth or income.

The purpose of the company requiring sufficient and appropriate information about customers: This information is expected to be sufficient to provide an analysis of a customer's personal and financial circumstances, leading to a clear identification of the customer's need, so that a suitable investment can be recommended; Identify customers business requirements from their profile; The company obtains customer information when someone becomes a new customer or applies for a new product or service to enable them to decide whether to accept the application; The company will use this information to help understand the profile of individual customers or of its customers as a whole, for marketing and product development purposes. In consummating the relationship, the following information will be required residential status, employment details, income, and other sources of income.

Amount of Information and its Verification is important for effective identification. The insurer should seek independent corroboration of name and address to establish the genuineness of information provided. Where opportunities for updating information arise for example, when a customer

takes out a new product the company should endeavour to get up-to-date information on the customer before the customer enjoys the new product or service.

2.9 International laws and Conventions

There are various conventions that Kenya is a signatory to and which it should seek to comply with and failure to which they face sanctions from the international community. Apart from sanctions, they will not be able to deal with countries that have implemented the recommendations of the conventions. Such conventions include and are not limited to USA Patriot Act of 2001, Financial Action Task Force (FATF), ESAAMLG, FATF 9 special recommendations

The Proceeds of Crime and Anti Money Laundering Act, 2009 however has considered all the above and has taken into consideration their requirements. Therefore for organizations in the financial services industry in Kenya, the Act is sufficient as a basis for compliance. It worth noting that despite the compliance target the information so collected can be utilized by firms as tactical or strategic resource

As best practice what should concern institutions are what measures they have put in place to ensure that all the relevant information has been collected from the customers immediately they enter into business transactions with them without having to do follow up for what would have otherwise have been easily obtained.

This study will demonstrate whether the institutions in the insurance industry and in particular life insurance have attained the threshold and therefore complying.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the methodology for carrying out the study and how data and information was collected and analyzed. It provides the details of research design, study population, sampling design, sampling procedures, data collection instruments and procedure, data processing and analysis.

3.2 Research Design

Descriptive research design was used in this study complemented with secondary data and information from the field.

3.3 Study Population

According to Cooper and Schindler (2003), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. This definition ensured that population of interest is homogeneous. The target population composed of 8 life insurance companies licensed to transact insurance business in Kenya with special focus on disclosure of customer information.

3.4 Data Collection Methods

The method adopted in the study was largely quantitative and included face to face administering of both the insurer/provider and customer questionnaire. Questionnaires with both closed and open ended questions were administered to selected respondents, both insurers and customers whose consent was sought prior to administering. Information validation, probing issues and credibility testing were carried out in the field to verify information.

3.5 Data Analysis and Report Writing

The open ended questions were first coded. Then data was keyed in and analysed using SPSS version 19.0. A final report was prepared for presentation to stakeholders. The report was both qualitative and quantitative in content. The recommendations thereto will be subjected to stakeholder discussions with a view to seeking consensus and eventual adoption

CHAPTER FOUR

4.0 RESEARCH FINDINGS, ANALYSIS AND DISCUSSIONS

4.1 INTRODUCTION

This chapter contains findings of the study in two parts, as the study sought to understand customer's disclosure requirements from both the customer and the insurer through a structured questionnaire. Essentially the insurer being the underwriter is the main determinant of the information necessary for the purpose of underwriting. However the customers understanding of the information requested has been analysed. The study begins with customers findings and later presents the insurers findings.

The approach to this assignment was structured in a format where we undertook to interview the Life Insurance providers on one hand and their customers on the other. The Life Insurance companies provided a sample list of their clients as shown in table 4.1 below from which the study team made contacts and interviewed those who consented

Table 0.1: Distribution of Client contacts provided by Life Insurance Companies.

Insurance Company No	Client contacts provided.	Contacts that could not be reached / refused to be interviewed.	No of persons interviewed	Success Rate %
1	100	47	53	53
2	95	73	22	23
3	112	64	48	43
4	40	14	26	65
5	51	27	24	47
6	53	18	35	66
7	45	21	24	53
8	99	80	19	19
Total	595	344	251	42

The number of customers interviewed per Life Insurance Company out of the total interviewed varied from one company to another as presented on table 4.2 below. Apollo recorded the highest contribution of customers interviewed at 21% followed

by CIC and Pan Africa at 19% and 14% respectively. The lowest numbers of customers interviewed were from Metropolitan and Old Mutual both at 8% followed by CFC at 9% respectively. Their lower participation was mostly due to non functional telephone contacts provided and refusal of customers to participate in the study.

Table 0.2 : Distribution of Respondents

Insurance Company	Frequency	Valid Percent
1	53	21
2	22	9
3	48	19
4	26	11
5	24	8
6	35	14
7	24	10
8	19	8
Total	251	100

On average each interviewer interviewed about 31 customers. The rest of this chapter captures the findings from the interviews with Life Insurance Customers and Interviews with Life insurance customers.

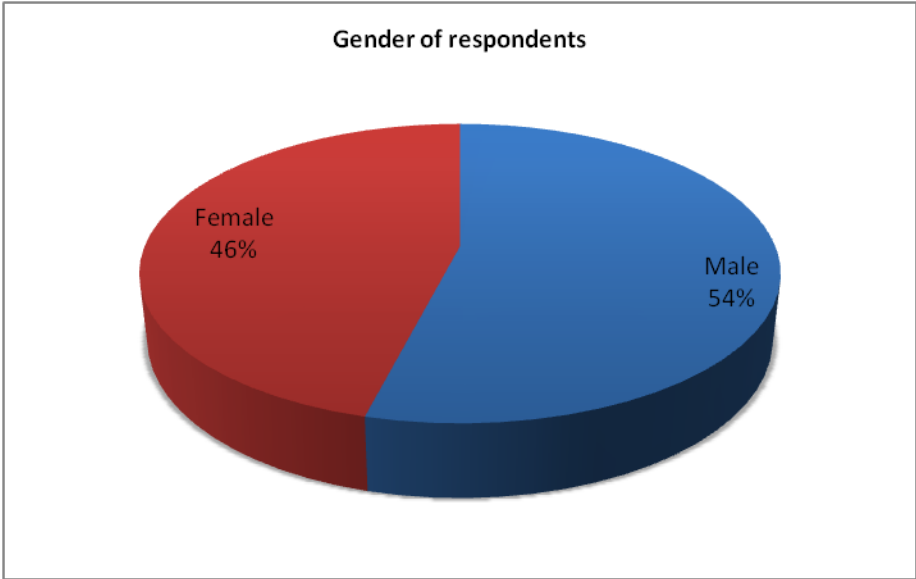
4.2 CHARACTERISTICS OF THE RESPONDENTS

4.2.1 Respondent/Customer Information

4.2.1.1 Gender of Respondents

Out of the two hundred and fifty one (251) customers interviewed in the study, 54% were male and 46% female (Figure 4.1). This is a near gender balance. The trend is almost similar for all the insurance companies apart from Apollo and Pan Africa that had more female than male respondents (Apollo 45% male and 55% female; Pan African 40% male and 60% female).

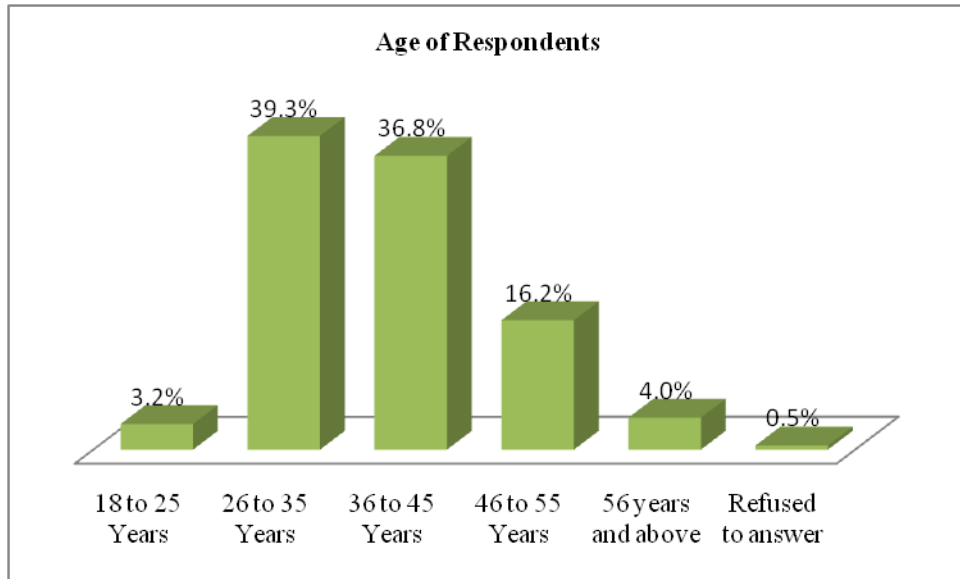
Figure 4.1: Gender of Respondents



4.2.1.2 Age of Respondents

The study grouped respondents into 5 age brackets of 18-25, 26-35, 36-45, 46-55 and 56 years and above as shown in figure 4.2 below. The most populous age bracket was 26 to 35 years representing 39.3% of the entire sample, followed by 36 to 45 years at 36.8%. The pattern indicates that fewer people from the younger and older age groups are taking up life insurance cover at 3.3% for those at 18 to 25 years and 4.0% for those aged 56 years and above. The percent that refused to answer on age was 0.5% which is insignificant and does not therefore affect the overall distribution.

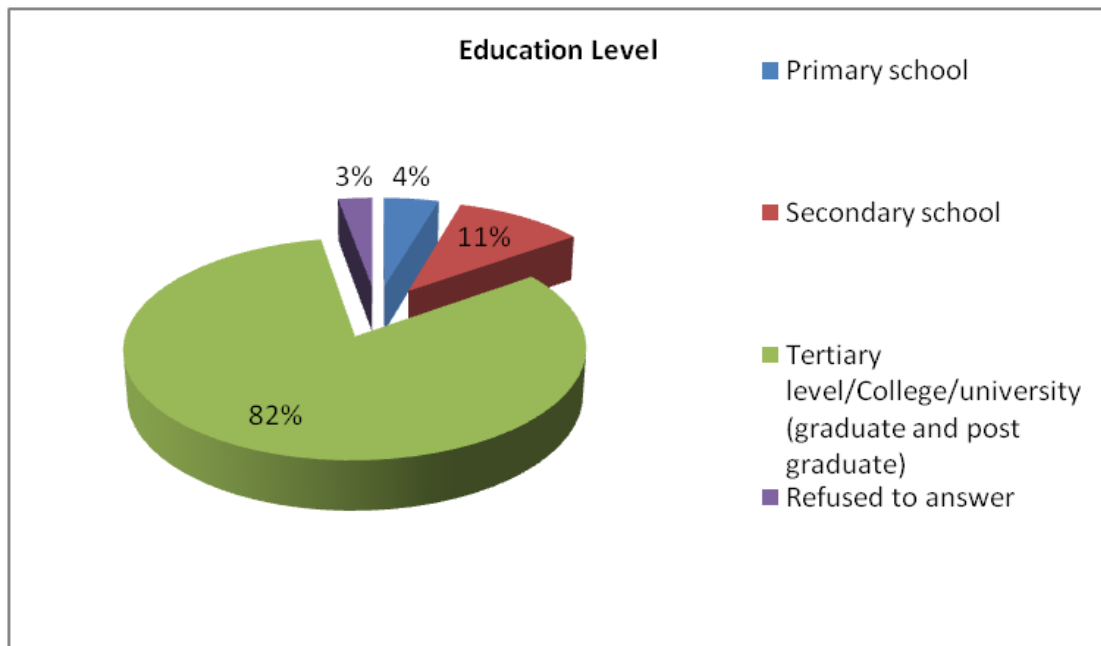
Figure 4.2: Age of Respondents



4.2.1.3 Education Level of Respondents

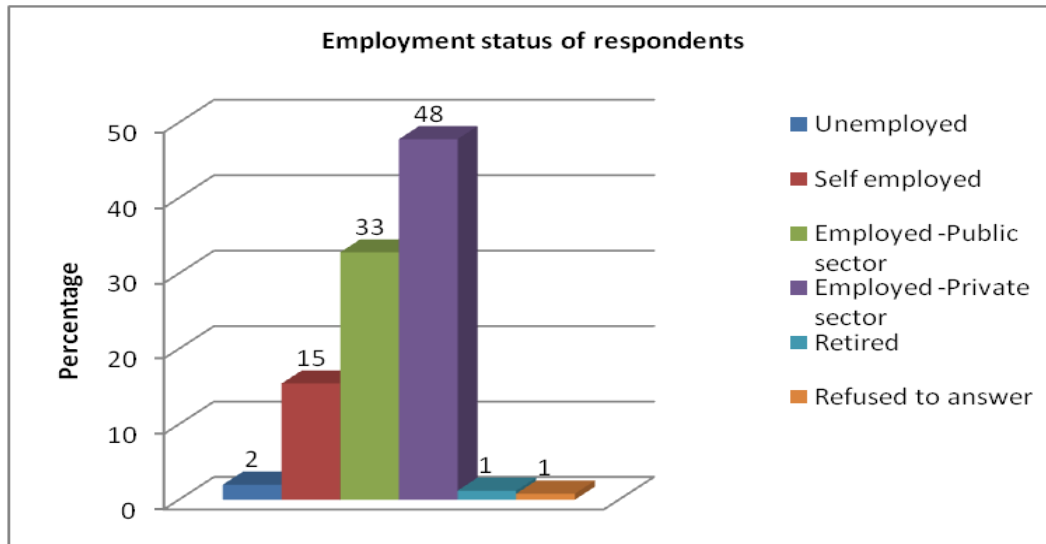
In terms of education level as shown in 4.3 below, most of the participants (82%) have attained Tertiary level/College/university (graduate and post graduate) followed by secondary school 11% and primary school 4%.

Figure 4.3: Education level of respondents.



4.2.1.4 Employment Status of Respondents

Out of the two hundred and fifty one (251) customers interviewed in the study, figure 4.4 shows that 48% of the respondents are employed in the private sector, 33% employed in the public sector, 15% self employed and 2% are unemployed. Figure 4.4 : Employment status of respondents



4.2.1.4 Monthly Income and Expenditure of Respondents

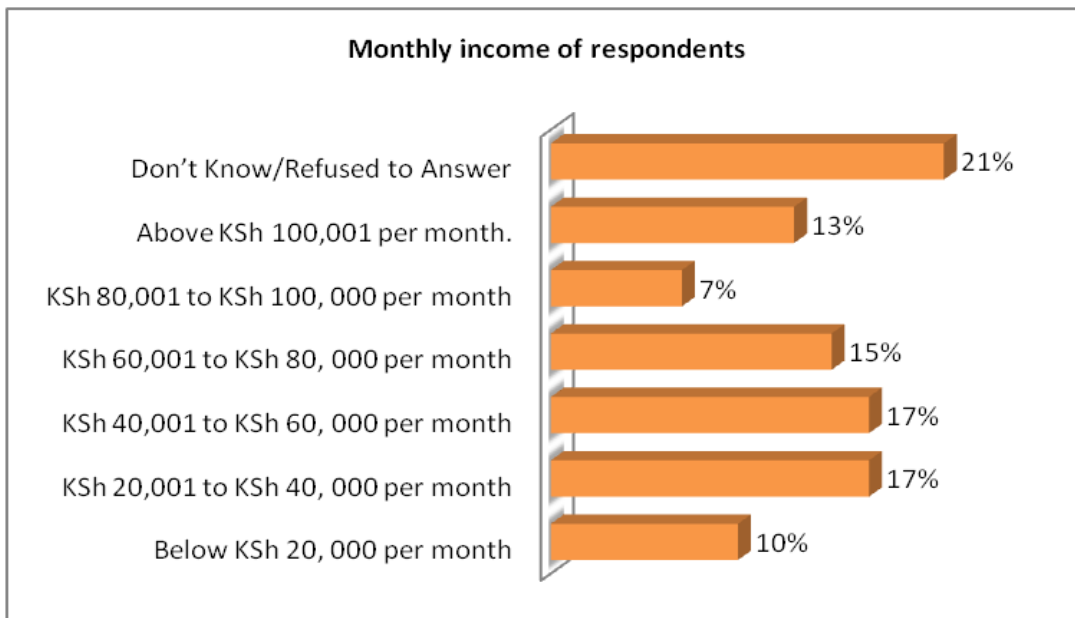
In terms of their monthly income, most of the customers 20% either refused to disclose the information or they said that they were not sure. However, it is important to note that most of the customers with life insurance are the ones earning between KSh 20, 000 per month and KSh 80,000 per month as demonstrated in table 4.8 and figures 4.5 below.

Table 0.4: Monthly Income and Expenditure of respondents

		Valid Percent
Monthly Income	Below KSh 20, 000 per month	10
	KSh 20,001 to KSh 40, 000 per month	17
	KSh 40,001 to KSh 60, 000 per month	17
	KSh 60,001 to KSh 80, 000 per month	15
	KSh 80,001 to KSh 100, 000 per month	7
	Above KSh 100,001 per month.	13
	Don't Know/Refused to Answer	21

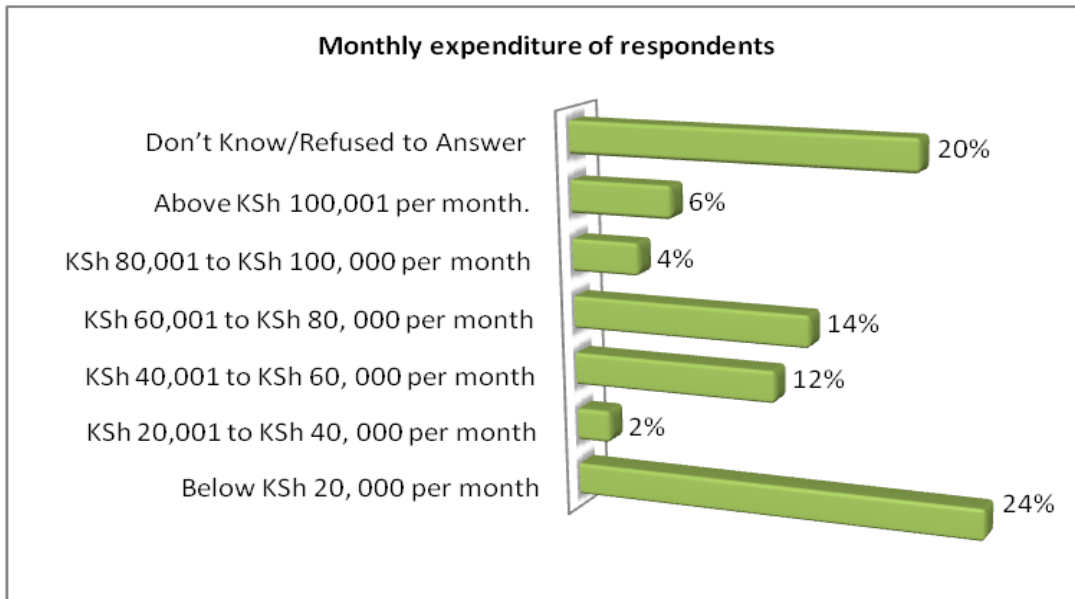
	Total	100
Monthly expenditure	Below KSh 20, 000 per month	24
	KSh 20,001 to KSh 40, 000 per month	20
	KSh 40,001 to KSh 60, 000 per month	12
	KSh 60,001 to KSh 80, 000 per month	14
	KSh 80,001 to KSh 100, 000 per month	4
	Above KSh 100,001 per month.	6
	Don't Know/Refused to Answer	20
	Total	100

Figure 4.5: Monthly Income of Respondents.



The same is true for the monthly expenditure. Most of the customers are those in the four categories, below ksh 20, 000 per month and ksh 80, 000 per month as demonstrated in the table 4.8 above and figure 4.6 below.

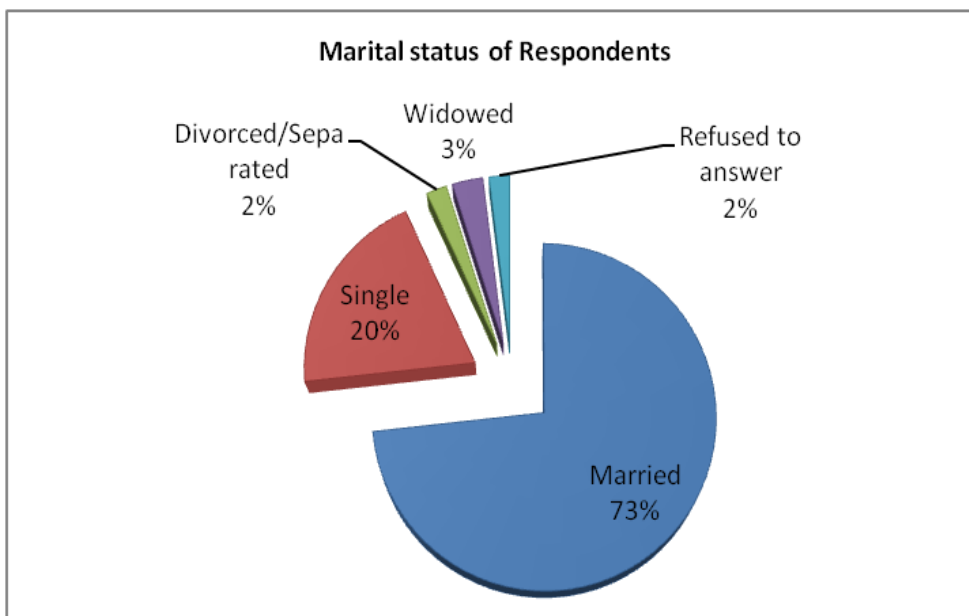
Figure 4.6; Monthly Expenditure of Respondents



4.2.1.5 Marital Status of Respondents

In terms of the respondent marital status, most of the customers 74% were married while 2% refused to answer the question. However, as shown in 4.7 below, 20% of the customers are single while 2% were divorced / separated and 3% were widowed.

Figure 4.7: Marital status of respondents

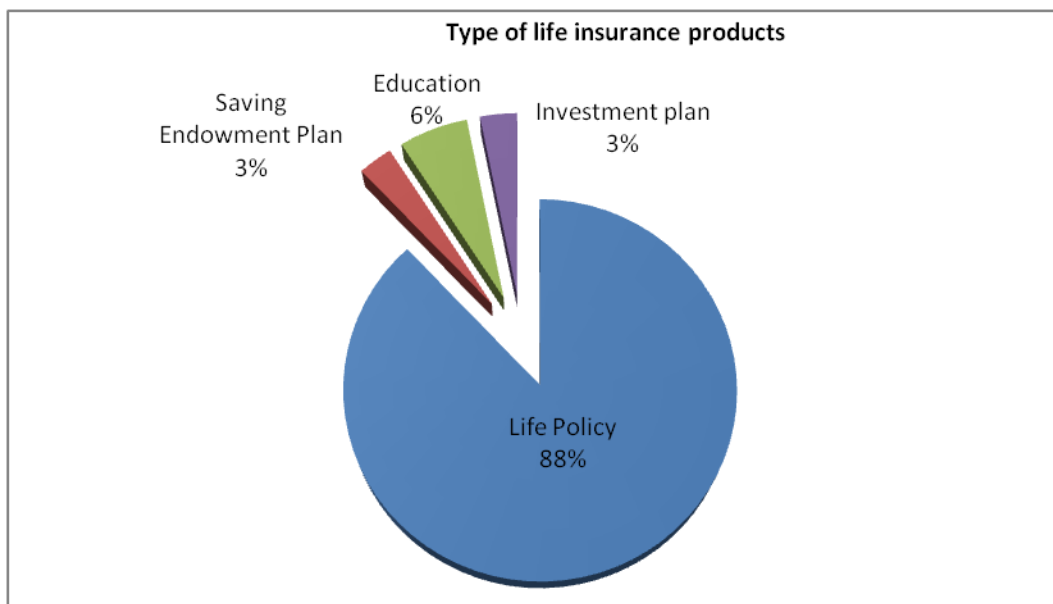


4.2.2 INFORMATION ABOUT THE POLICY

4.2.2.1 Type of Life Policy

The customers interviewed were all under life insurance covers although they possess different types of life insurance products as demonstrated in figure 4.8 below. Most of the respondents were in possession of life insurance products (88%) followed by education at 6% and investment and saving endowment plan each at 3%.

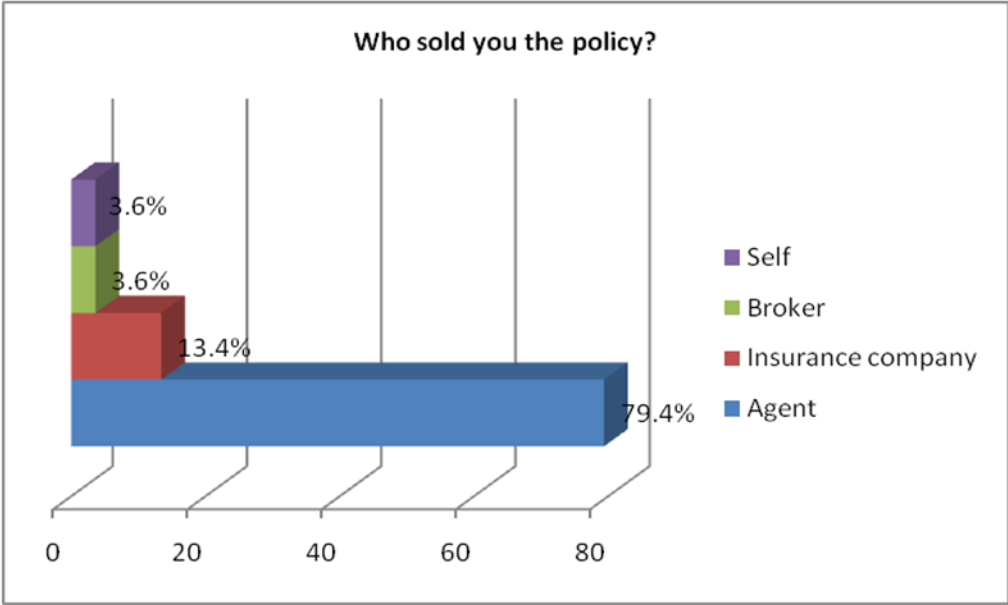
Figure 4.8: Different types of life insurance products



4.2.2.2 Where respondents bought their policies

Given the nature of the insurance industry which has several intermediaries selling insurance products, this study sought to find out who sold the insurance policy to the respondent as this would also affect the outcome of information disclosed by the respondent depending on the information sold to the respondent. Figure 4.9 below shows that most of the customers (79.4%) bought the policies from agents, followed by 13.4% who bought directly from the insurance companies and 3.6% who bought from insurance brokers. The remaining 3.6% represents the insurance staff who bought the policies from “self”.

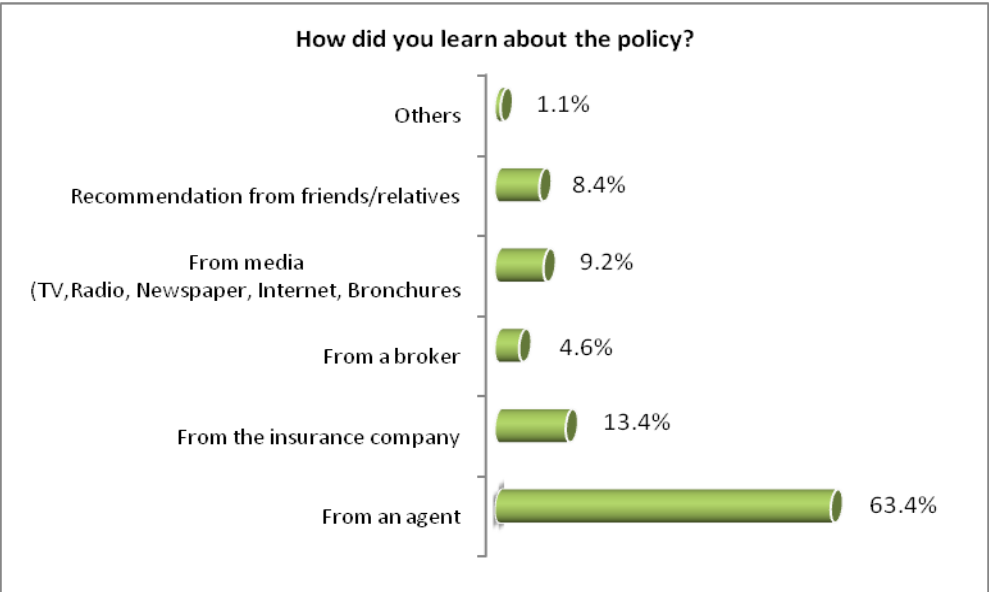
Figure 4.9: Where customers bought their policies



4.2.2.3 Where did you get to learn of the policy

How the respondent got to learn about the insurance policy is as important and closely related to who sold the policy. Here we intended to find out the mode of advertising that the respondent was exposed to in order to make an informed decision to purchase the policy. As shown in figure 10 below. Most of the customers learnt from the agents 63.4%.

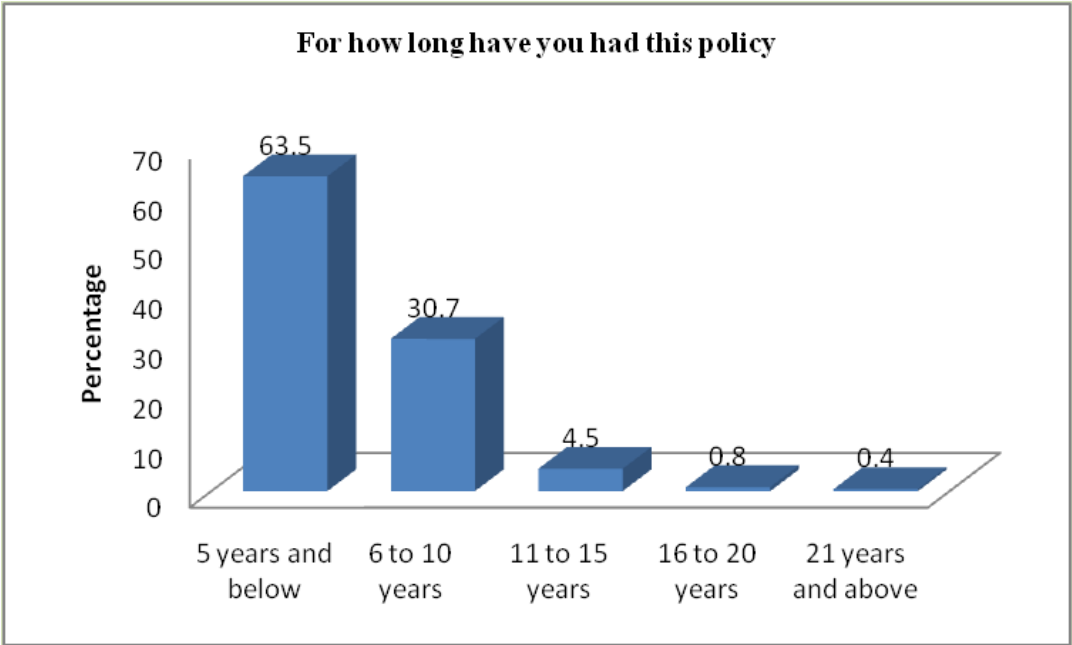
Figure 4.10: How customers learnt about the policy



4.2.2.4 Duration of Policy

Most of the customers (63.5%) have held the policy for duration of 5 years and below. The number of years is on the decline with customers who have held the policy for more than 20 years at 0.4% as represented on the figure 4.11 below.

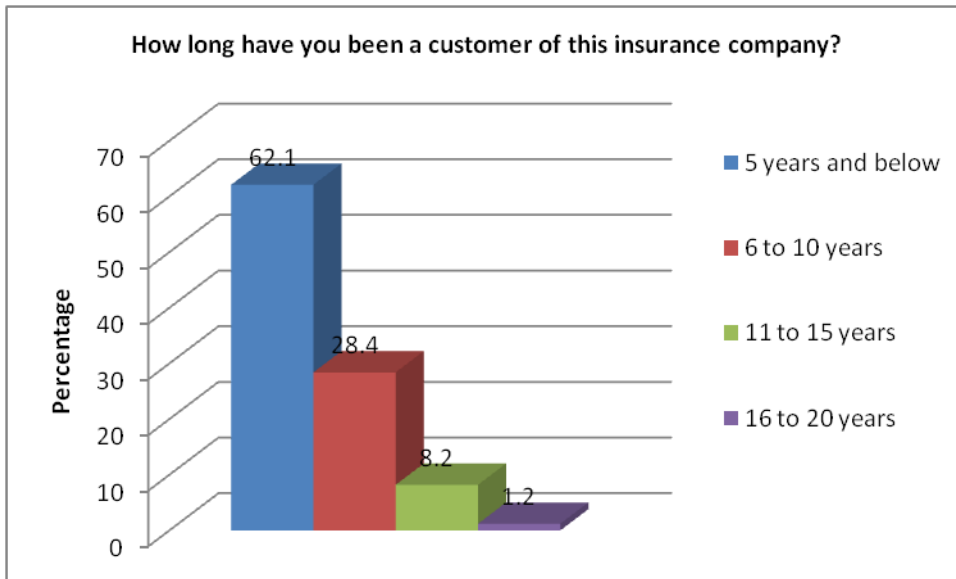
Figure 4.11: Duration of Policy



4.2.2.5 Duration with Insurance Company

It was observed that most of the customers 62.1% have been customers of the specific insurance company for five years and below. Just like the duration of the policy, the duration of time customers have been with specific companies declines with increase in number of years as represented on the figure 4.12 below.

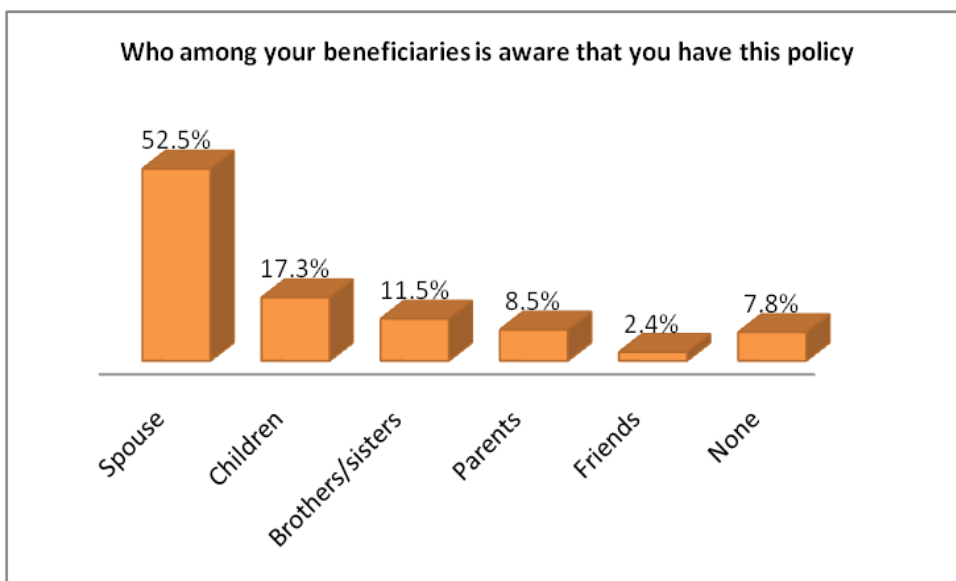
Figure 4.12; Duration with insurance companies



4.2.2.6 Disclosure of policy information to beneficiaries

This study sought to find out if respondents generally inform their beneficiaries of the existence of the life insurance policy that they are holding as represented in figure 4.13 below. Most of the customers have disclosed to their spouses 52.5% followed by their children 17% and their brothers and sisters 8.5%. There is also a significant 7.8% who have not disclosed if they have a policy to anyone.

Figure 4.13; Beneficiaries aware that customer has a policy



Likewise the study sought to find out if the beneficiaries who are aware of the existence of the policy also know about the details of the policy. Table 4.5 below shows that 42% of the respondents agree with this statement that their beneficiaries are aware of all the details of the policy while only 17% strongly agree to the same. 7% neither agree nor disagree while 24% disagree with the statement and only 10% strongly disagree meaning that their beneficiaries are not in the know of any information about the policy.

Table 0.5: Beneficiaries knowledge of policy details

Statement	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
My beneficiaries are aware of all the details of my policy including benefits.	17%	42%	7%	24%	10%

4.2.3 INFORMATION DISCLOSURE

4.2.3.1 Information Expected to provide.

Several questions were asked to establish how comfortable the customers were with the kind of information they were required disclose. The questions were designed to explore aspects of clarity on information requested, the relationship between the customer and the person who sought the information and the level of honesty in providing information.

Generally, as shown on table 4.6 below, the customers agreed with most of the issues, for example 58% agreed that importance of providing the correct information was explained to them by the person who sold the policy, 58% agreed that the information was clear/easy to understand, 59% agree that they were satisfied with the kind of information asked and 61% agreed that the information requested was easy to provide. On the other hand, only 30%

agreed that the information provided by the person who sold the policy affected the honesty of information they gave with 28% disagreeing with the same statement.

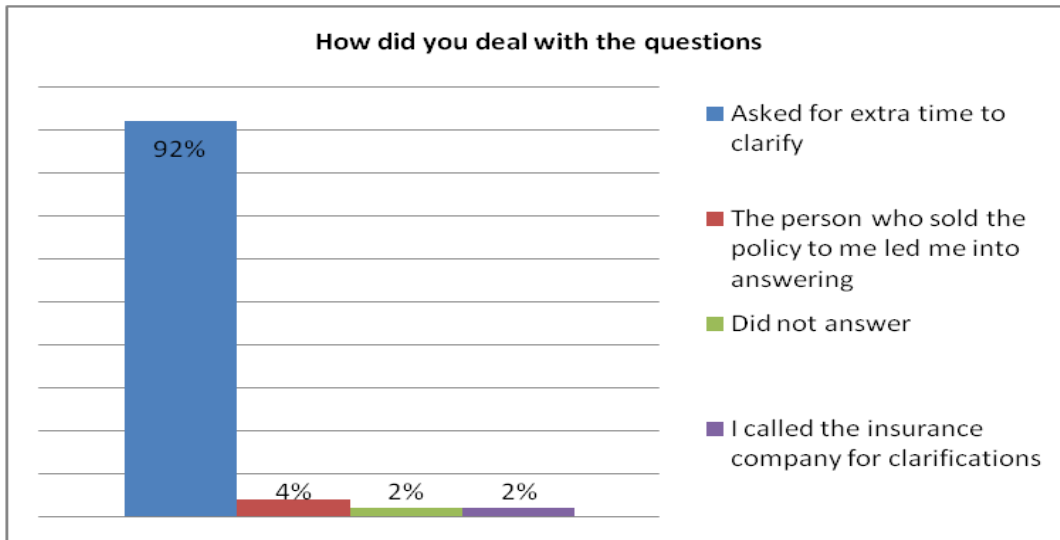
Table 0.6: Information for disclosure

Statement	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
The importance of providing the correct information was explained to me by the person who sold the policy to me	24%	58%	9%	8%	1%
The information was clear/easy to understand	18%	56%	18%	6%	2%
The information provided by the person who sold the policy to me affected the honesty of information I gave	11%	30%	8%	28%	23%
I was satisfied with the kind of information asked	26%	59%	9%	6%	0%
I was honest with the information I provided	58%	40%	1%	1%	0%
The information provided was easy to provide	29%	61%	8%	2%	0%

4.2.3.3 How customers dealt with questions asked

Of all the respondents, 43% reported that at the time of taking cover they were asked questions that required immediate responses yet they did not have the information at hand. To deal with this, 92% of the customers asked for extra time to clarify, 4% reported that the person who sold the policy led them into answering, 2% called the insurance company for clarifications the remaining 2% did not answer the questions as demonstrated on figure 4.15 below.

Figure 4.15: How customers dealt with the questions asked



4.2.3.4 Documents Requested

Among all the customers interviewed, 94% were requested to produce documents during the application. The percentages were almost similar for both males 94.5% and females 95.4% (figure 4.16) and also among various age groups (figure 4.17).

Figure 4.16: If documents were requested during application

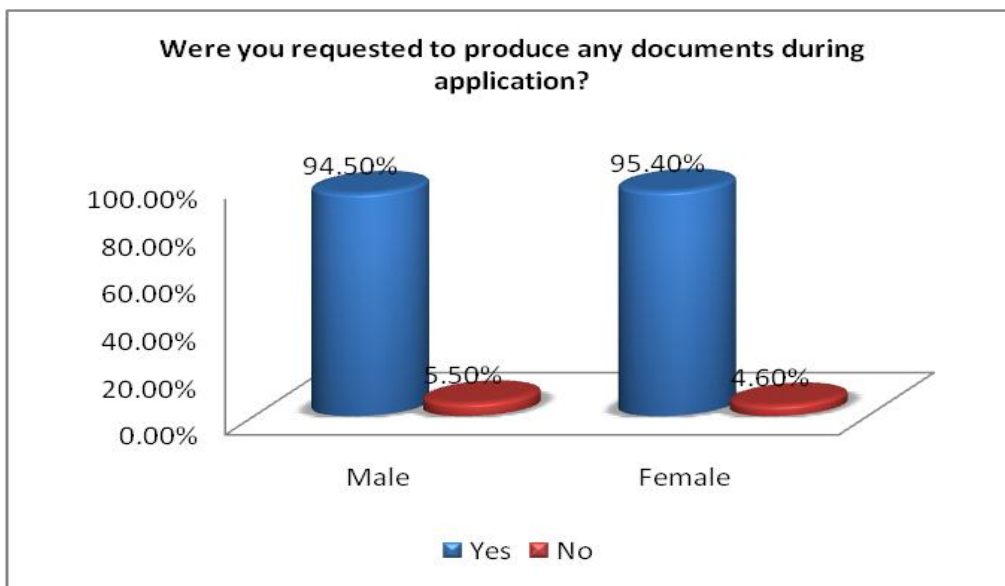
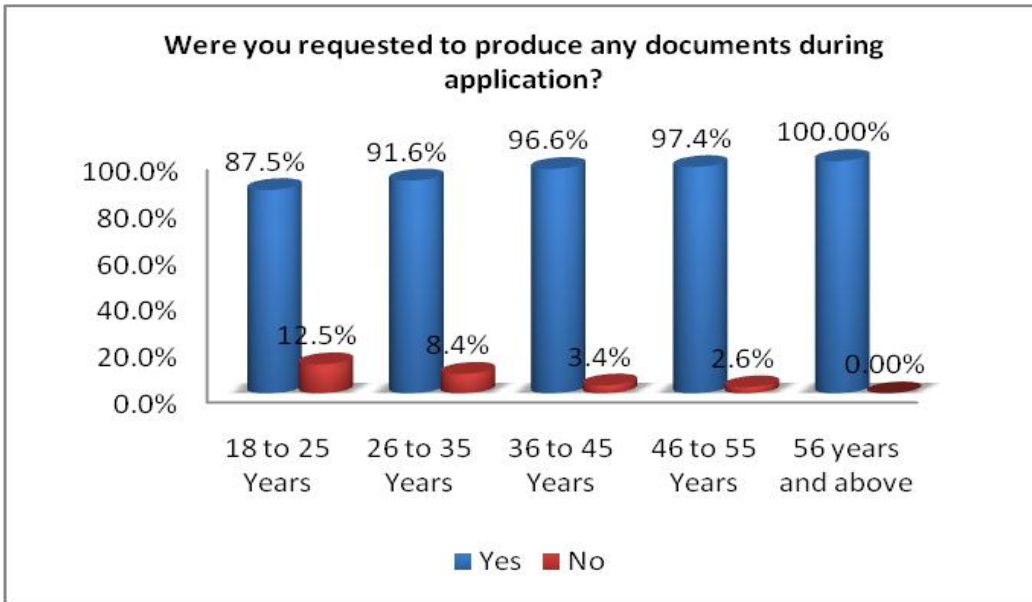


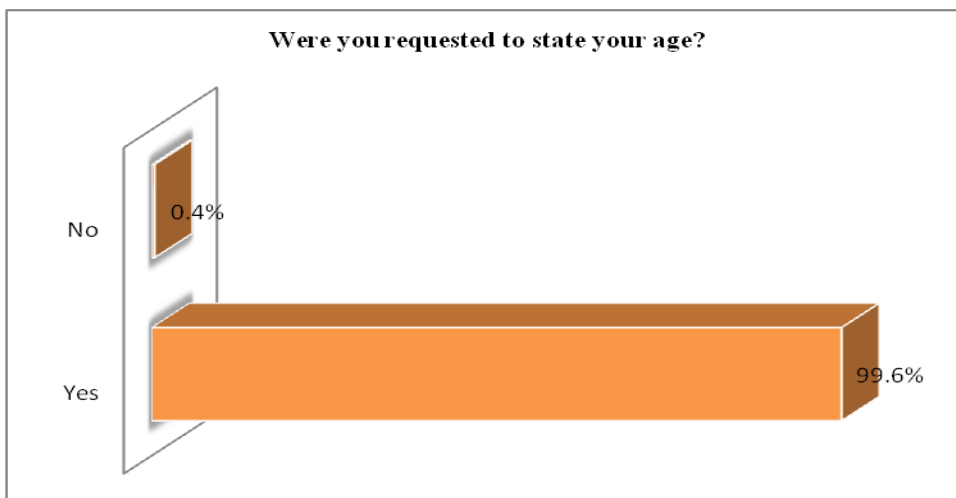
Figure 4.17 1: If documents were requested during application/age



4.2.3.5 Age Requirement

Age is a major requirement with 99.6% of the customers having been requested to state their age (figure 4.18). The requirement was similar across the gender with 99.2% of males and 100% requested to state their age and age group with 98.9% for those aged 36 to 45, and 100% for all the other age groups. Out of these, 95% were asked to produce documentary evidence for their age. The trend was also similar among the insurance companies.

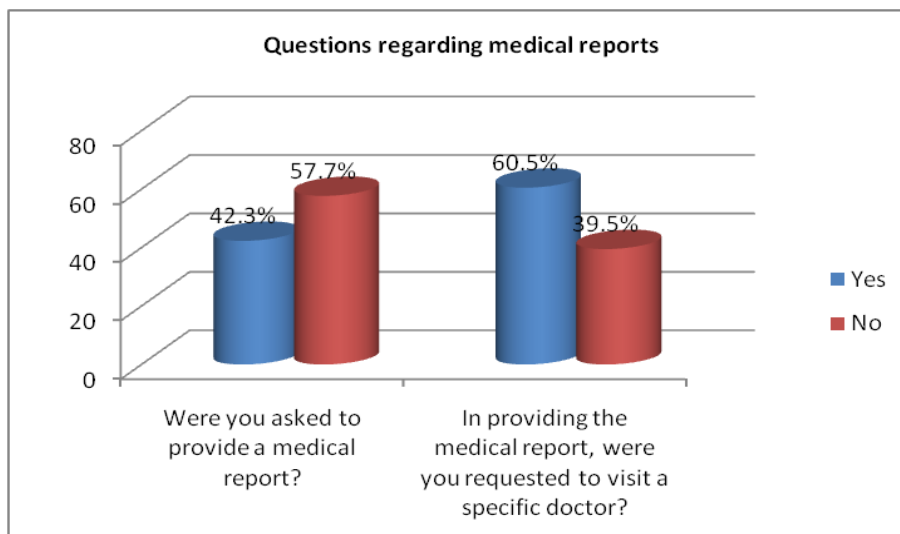
Figure 4.18: Age Requirements by the insurance companies



4.2.3.6 Medical Reports

Only 42.3% of the respondents were requested for their medical reports out of which only 60.5% were asked to visit a specific doctor as demonstrated on the figure 4.19 below.

Figure 4.19: Medical reports

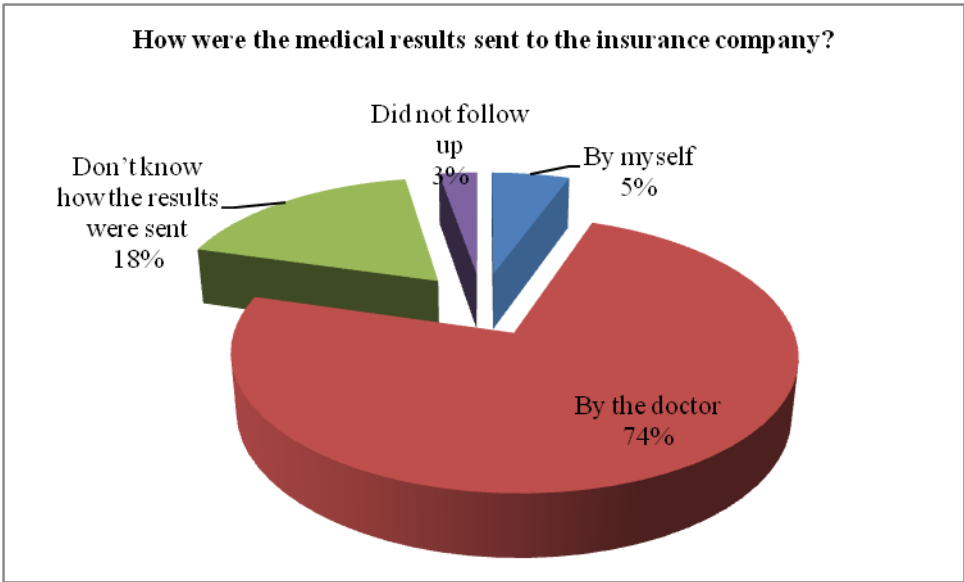


4.2.3.7 How medical reports were sent to the insurance companies

For the customers who were requested to visit a specific doctor, there are various methods used to deliver the results to the insurance companies. Overall, table 4.20 shows that 74% of the customers reported that the medical results were sent by the doctor, 18% do not know how the results were sent, 5% returned their results and 3% did not follow up. This slightly varies within the insurance companies.

Although all the insurance companies recorded most of their customers results were sent to the insurance companies by the doctor, there are some customers who reported having delivered their results themselves. This is a concern because it's questionable how the customers would react if the results revealed something that would affect their policy.

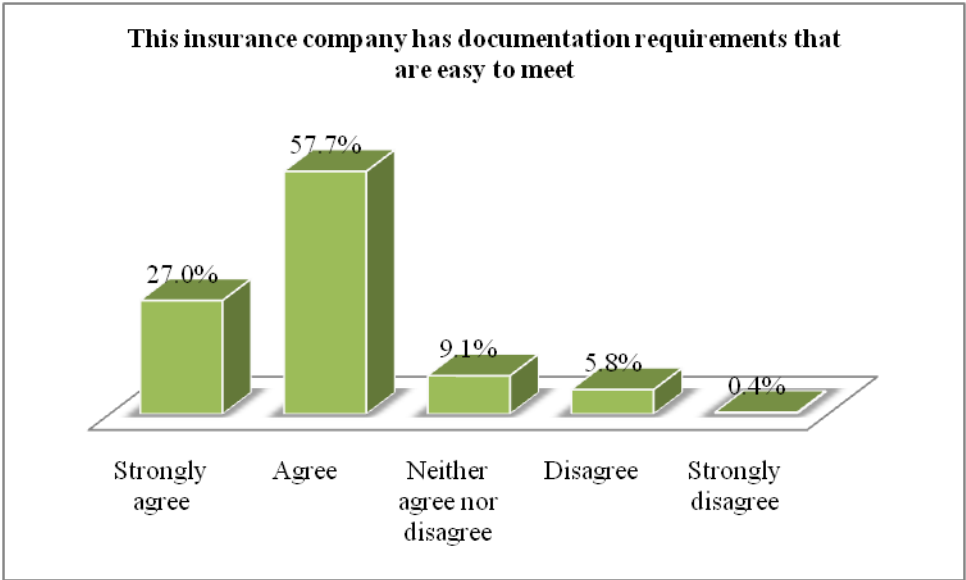
Figure 4.20: How the medical results were sent to the insurance companies



4.2.3.8 Ability to understand information requested

Most of the customers either agree 57.7% or strongly agree 27% that the information requested by the insurance companies is easy to understand as demonstrated on figure 4.21 below. However the level of agreement varies from customers of various insurance companies. Requirements that customers find difficult include medical reports, copy of pin certificate, birth certificate and Identity card.

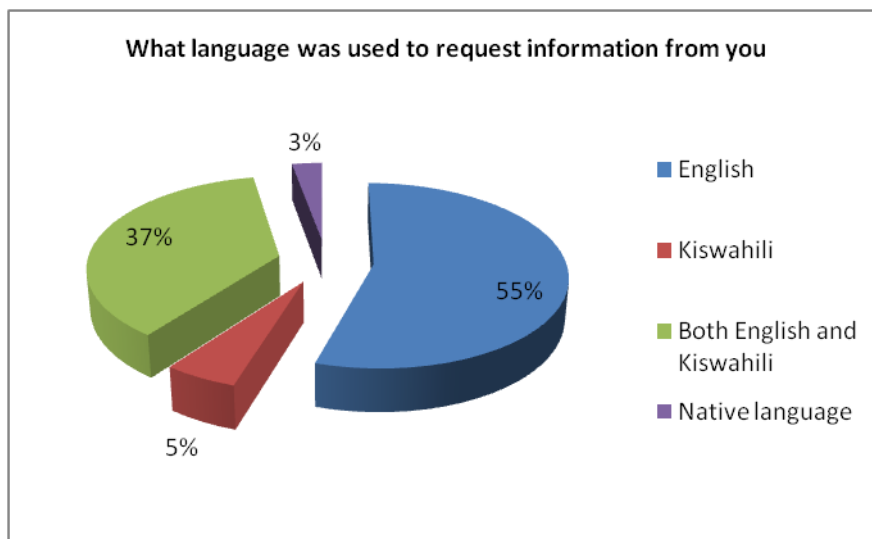
Figure 4.21: Ability to understand documentation requirements



4.2.3.9 Language used to Request Information

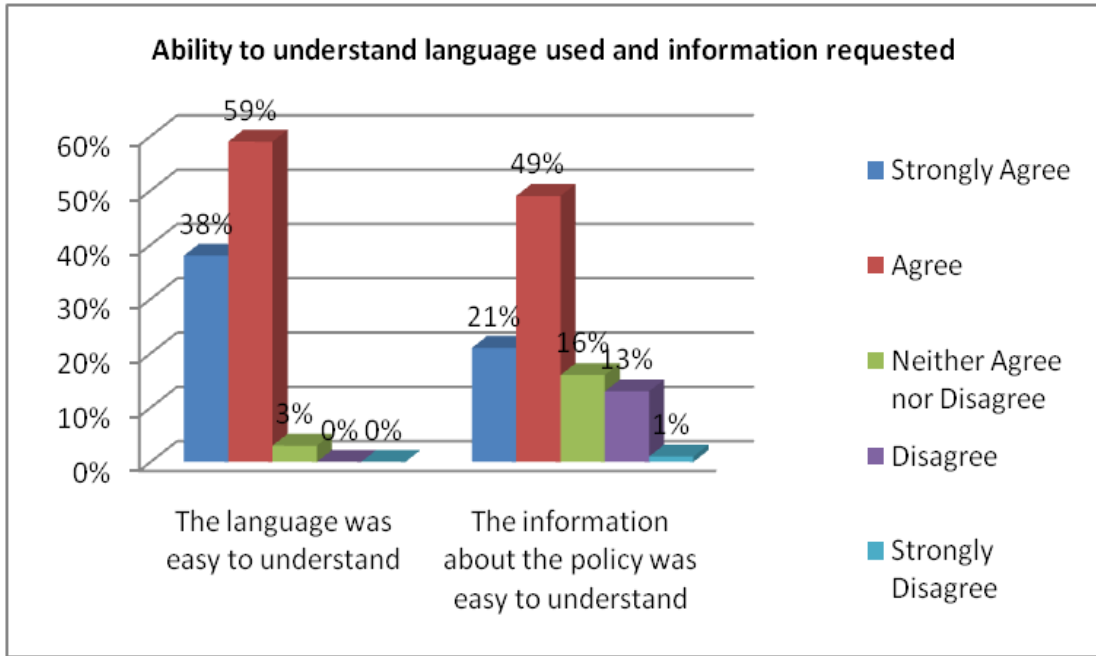
Notably, English is the commonly used language to request for the customer information at 54.8%. This is closely followed by a mixture of English and Kiswahili, 36.9%, Kiswahili 5.4% and native language 2.9%. This information was crucial bearing in mind that all the proposal forms obtained from the companies are in English. It raises questions of whether the proportion that used English are comfortable with it or the situation is imposed and for those who used other languages, does translation by different persons bring out similar meaning? The results are presented below in figure 4.22.

Figure 4.22: Language used to request information



Despite the fact that several languages were used to request information, most of the customers either strongly agreed or agreed that the languages used were easy to understand at 38% and 59% respectively. However there were a significant proportion of customers who neither agree nor disagree, 16%, disagree 13% and strongly disagree 1% that the information requested was easy to understand (Figure 4.23)

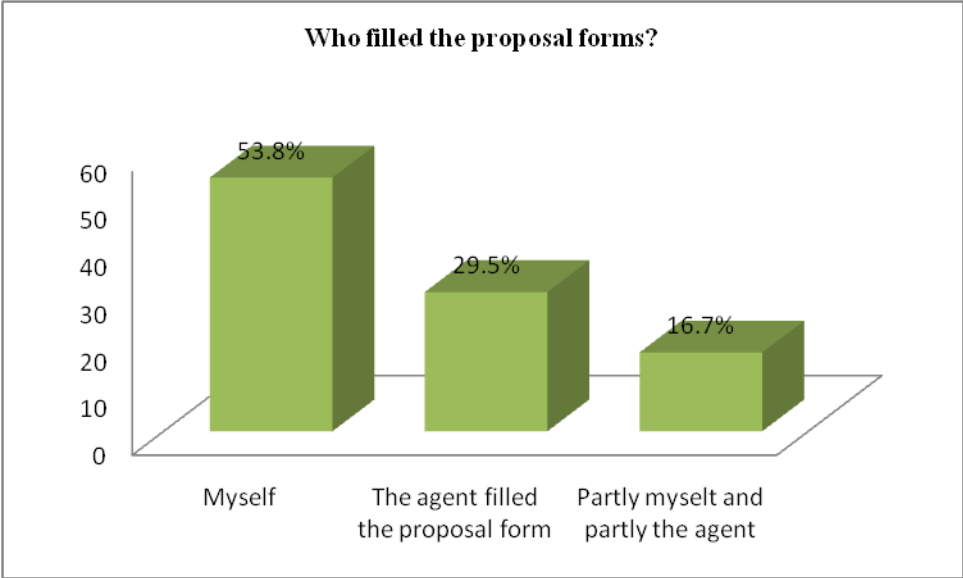
Figure 4.23: Ability to understand language used and information requested



4.2.3.10 Filling the Proposal Forms

Although most of the customers 53.8% filled their proposal forms, a significant number reported that their forms were either filled by the agents 29.5% and for another 16.7% were partly filled by the customer and partly by the agent. 13% of the customers interviewed reported a different perception. Out of these 76.9% reported that their forms were filled by a staff member from the insurance company dealing with the proposals and 23.1% reported that their forms were filled by the persons who introduced the policy to them (not sure of their positions in the insurance companies). However, it is important to note that 94% of those who did not fill their proposal provided the information filled. Also, 81% of those who did not fill their forms reported that they confirmed the answers written on the proposal forms before they signed the proposal forms.

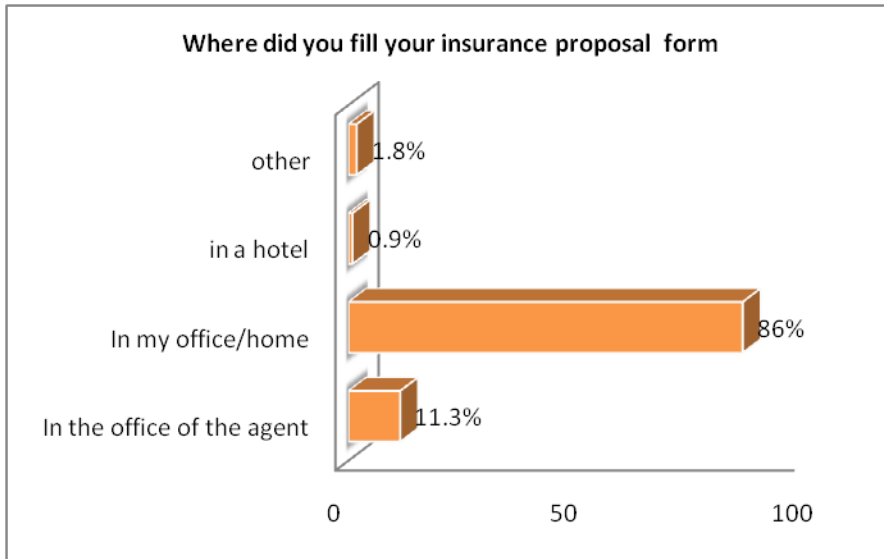
Figure 4.24: Filling the proposal forms



4.2.3.11 Location of Filling the Proposal Forms

Customers filled the proposal forms in various locations. 86% filled in their homes/offices, 11.3% in the agents' offices, 0.9% in hotels and the remaining 1.8% in other places which include insurance company offices and in town (location not specified). In assessing the preference of the location, 95% of the customers reported that the location was their preference. And of the 5% that did not fill in their preferred location, 50% would have preferred to fill the forms in the insurance company offices. It is also worth noting that 94% of the customers reported that the location did not have an effect on the information they gave. (Figure 4.25)

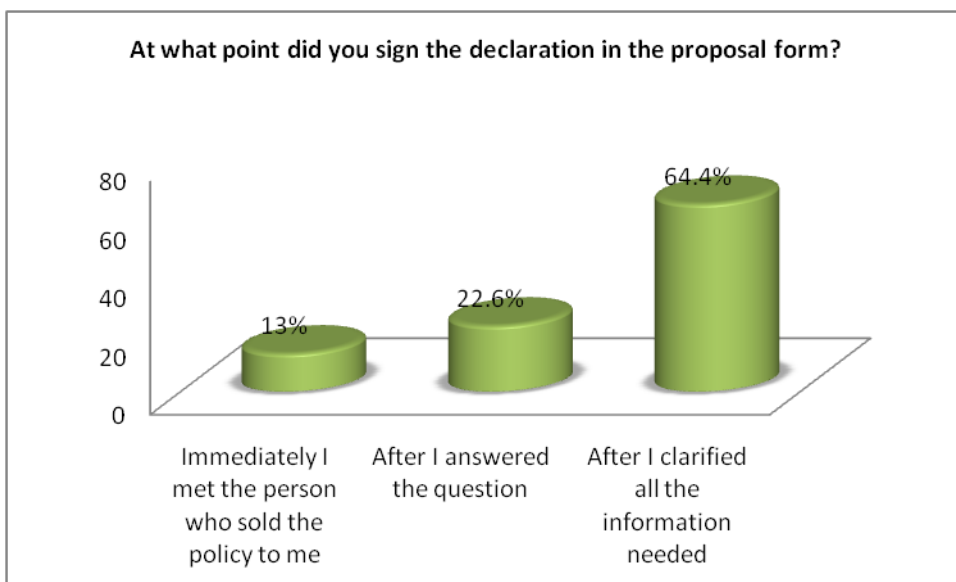
Figure 4.25: Location of filling the proposal forms



4.2.3.12 Signing of the Proposal Forms

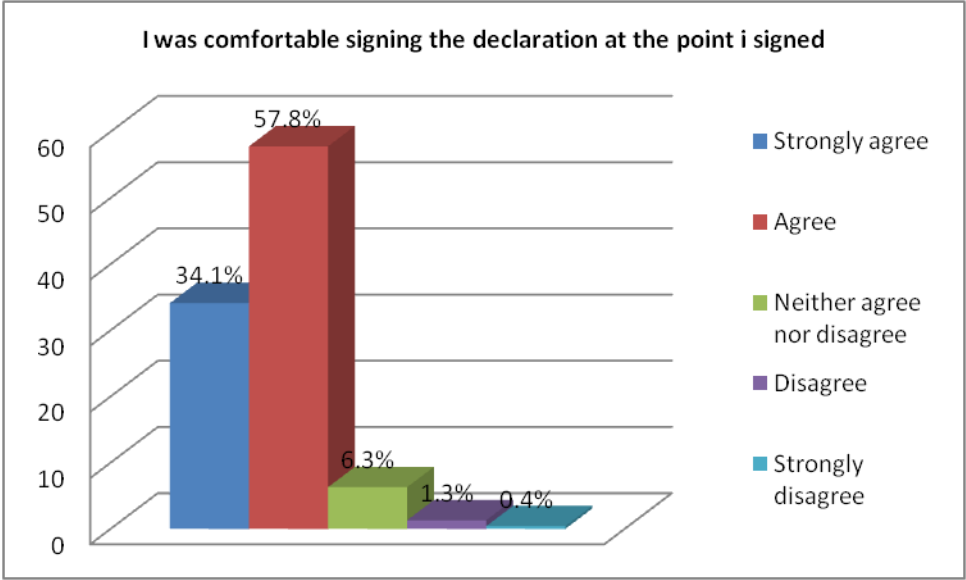
It is clear that most of the customers 64.4% signed the declaration on the proposal after they clarified all the information needed. 22.6% filled the information after they answered all the questions and 13% filled immediately they met the person who sold the policy to them. It is however important for IRA to address the issue of the 13% of customers who are made/convincing to sign the declaration before they provide and clarify the information as this is likely to create conflict of interest in future(Figure 4.26).

Figure 4.26: Signing the proposal forms



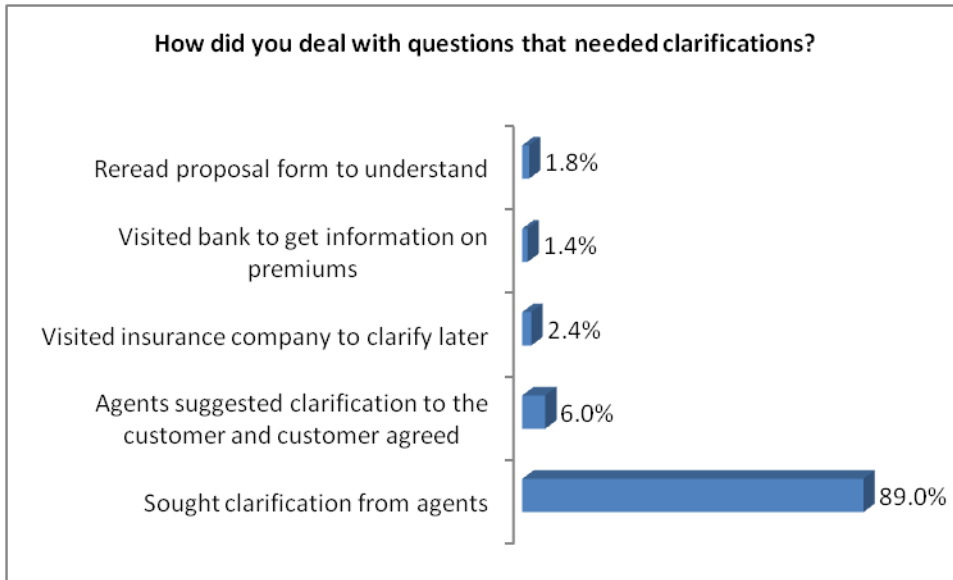
34.1 % of the customers strongly agreed and 57.8% agreed that they were comfortable signing the declaration at the point they signed. Of concern also is the fact that around 8.1% of the customers disagreed that they were comfortable signing the forms at that point. (Figure 4.27)

Figure 4.27: Comfort in signing the Declaration at the point of signing



However, 61% of the customers reported that there were terms that needed clarifications before they signed the declaration on the proposal forms. To deal with this, the customers reported that they either sought clarifications from the agents (89%), the agents suggested clarifications which the customers took (6%) and the rest visited the insurance companies to clarify (2.4%), visited their bank to get more information on the premiums paid (1.4%) and others re-read the proposal forms to understand (1.8%) as presented on table 4.28 below.

Figure 4.28: How customers dealt with questions that required clarifications



4.2.3.13 Information on the Policy

From the responses on the information about the policy, most of the customers score almost equally on statements that enquire about the information of the policy. The highest scores are not on the extremes. The highest score for agree is 59% and the highest for disagree is 53% which are both slightly above 50%. The specific scores for the attributes are presented on the table 4.7 below.

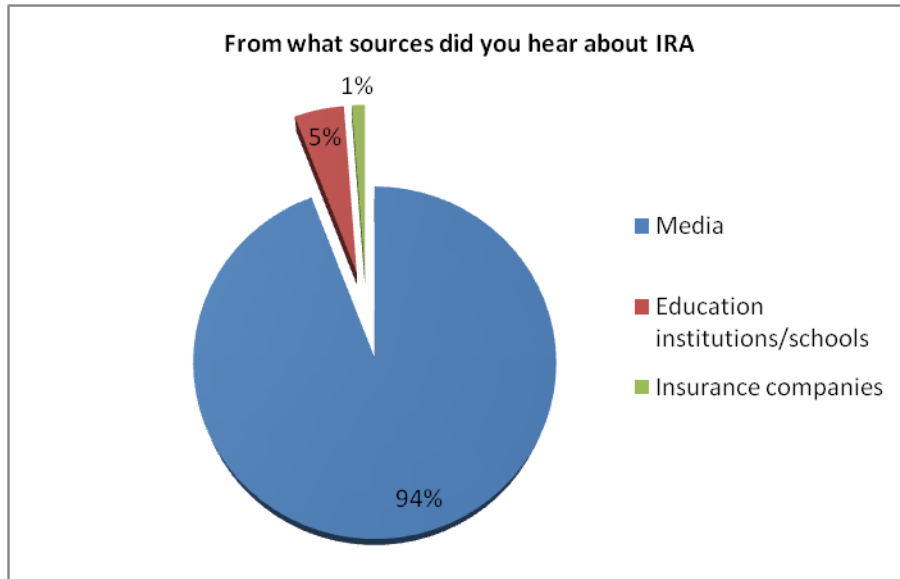
Table 0.7: Information on the policy

Statement	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
The person who sold the policy to me informed me of the consequences of not providing the correct information	17%	41%	8%	28%	6%
The insurance company has never made a follow up on the information i gave in relation to this policy	21%	35%	15%	25%	4%
I was willing to take the life insurance policy	35%	59%	3%	2%	1%
I was coerced to take the life insurance policy	1%	3%	4%	53%	39%

4.2.3.14 Customer Awareness of IRA

The study also sought to find out policyholders awareness of the existence of IRA. Of the total sample population, sixty three percent (63%) of customers reported that they aware of IRA and know IRA’s mandate. Sources of awareness mentioned include the media 94.2%, through education institutions (schools) 4.6% and 1.2% from the insurance companies..

Figure 4.28 1Sources of awareness about IRA



4.3 FUNDINGS FROM INETRVIEWS WITH INSURERS

4.3.1 DEMOGRAPHIC INFORMATION

Persons interviewed to represent various companies were from different departments and sections as presented in the table 4.13 below. The decision on who to interview was reached after discussions with the company CEO’s. These persons interviewed were perceived to be having direct contact with the customers’.

Table 0.8: Department of respondents

Department of Respondents	Valid Percent
Customer Solution	12.5
Finance	12.5
Individual life	25

Life	12.5
Life underwriting	12.5
Operations	12.5
Risk management and compliance	12.5
Total	100

Table 0.9: Section (Sub department) of Respondents

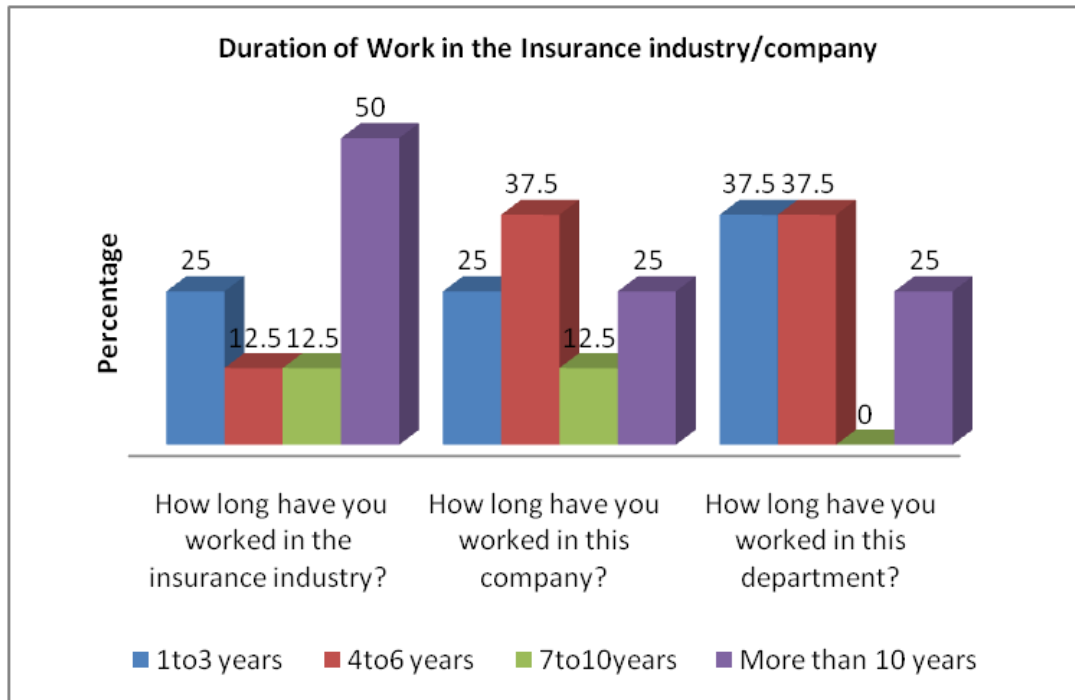
Section (Sub department) of Respondents	Valid Percent
Business solutions	12.5
Finance	12.5
Group life	12.5
Life	12.5
New Business	12.5
Operations	25
No Response	12.5
Total	100

4.3.2 PERSONAL INFORMATION

4.3.2.1 Duration of work

50% of the respondents had more than 10 years experience in the insurance industry, an indication they had been in the insurance industry for a while and therefore understand operations well. Most of these persons, 37.5% had worked in the same company for 4 to 6 years while the same percentage had worked in the same department for between 1 to 6 years. It was however observed that those who had worked for a short time were in the same department at their time of the survey. (Figure 4.29)

Figure 4.29 : Duration of work in the insurance industry/company

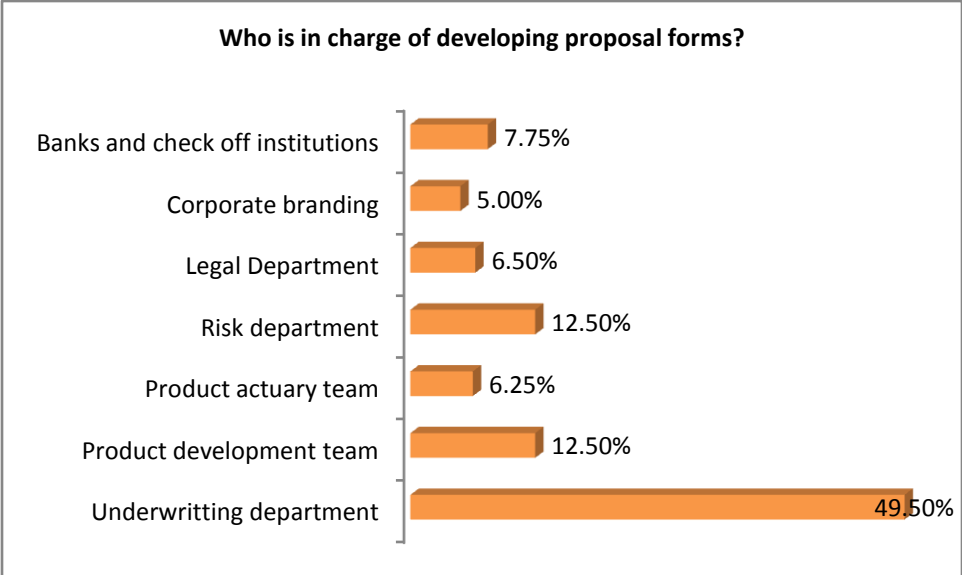


4.3.4 INFORMATION DISCLOSURE

4.3.4.1 Who is in charge of developing the proposal forms

In all the insurance companies there are various departments responsible for developing customers' proposal forms. These include the management teams, underwriting departments, product development teams, product actuary teams, risk departments, legal departments, research departments and corporate branding whereas some companies incorporate external parties like consultants, banks and other check off institutions (figure 4.30)

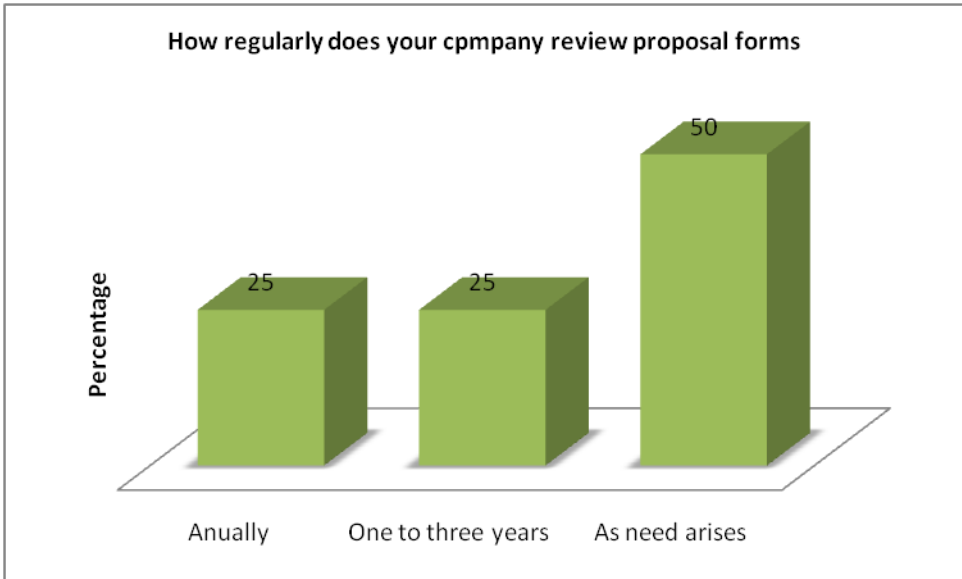
Figure 4.30: Development of proposal form in the companies



4.3.4.2 Review of company’s Proposal Forms

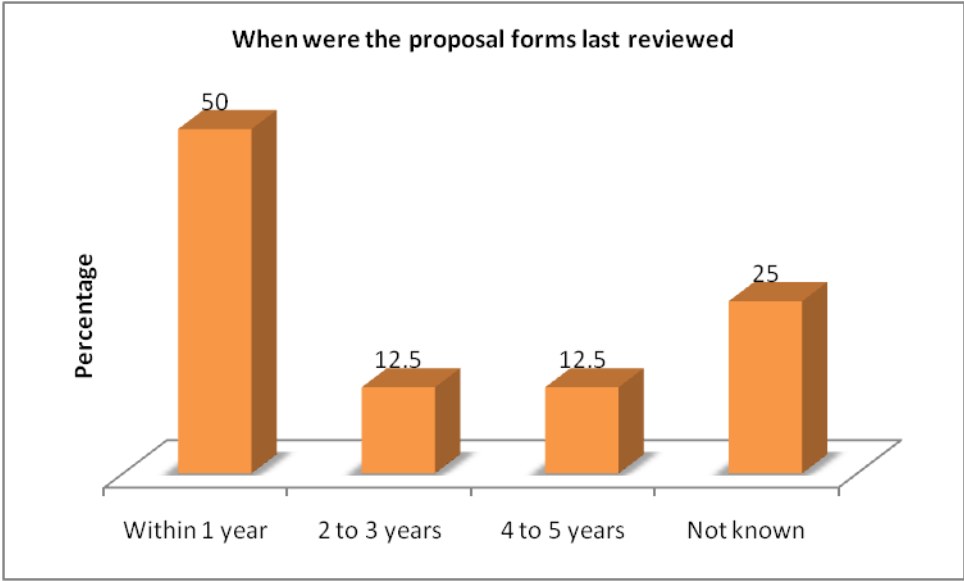
When asked how frequently the companies’ review their proposal forms, 50% stated that they review as need arises, 25% review annually and 25% review every 1 to 3 years.

Figure 4.31: Frequency of review



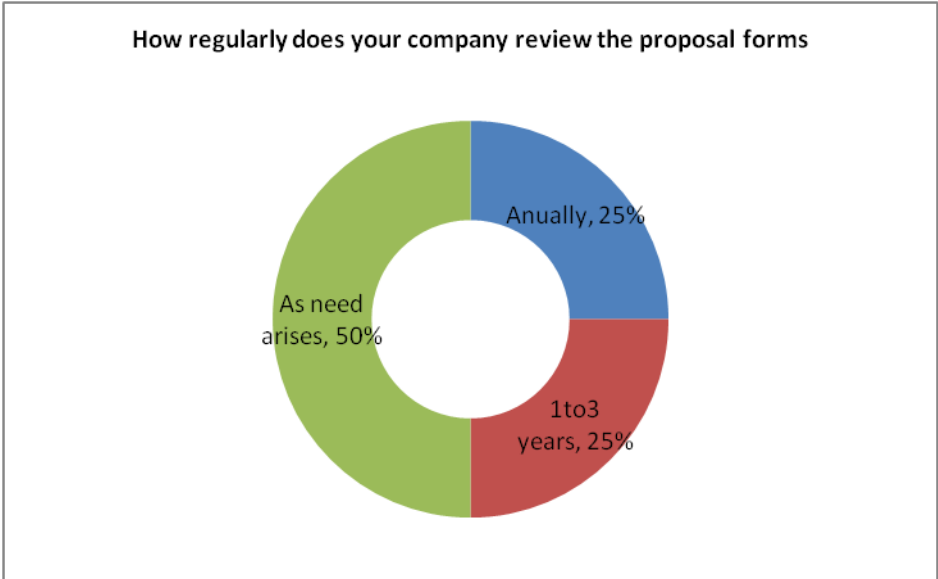
The last review was done within 1 year for 50% of the companies, 2 to 3 years for 12.5% of the companies and 4 to 5 years for 12.5% of the companies. For the remaining 12.5% companies, it was not known when the forms were last reviewed.

Figure 4.32: Last proposal forms review



For all the insurance companies, any amendments to the proposal forms did not affect the existing policy holders.

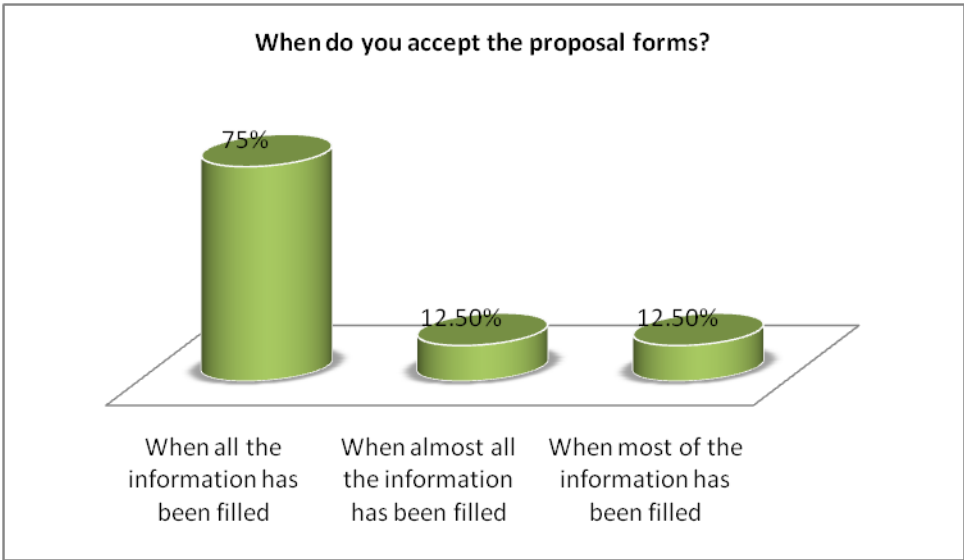
Figure 4.33: Review of blank proposal forms



4.3.4.3 Customers’ proposal forms

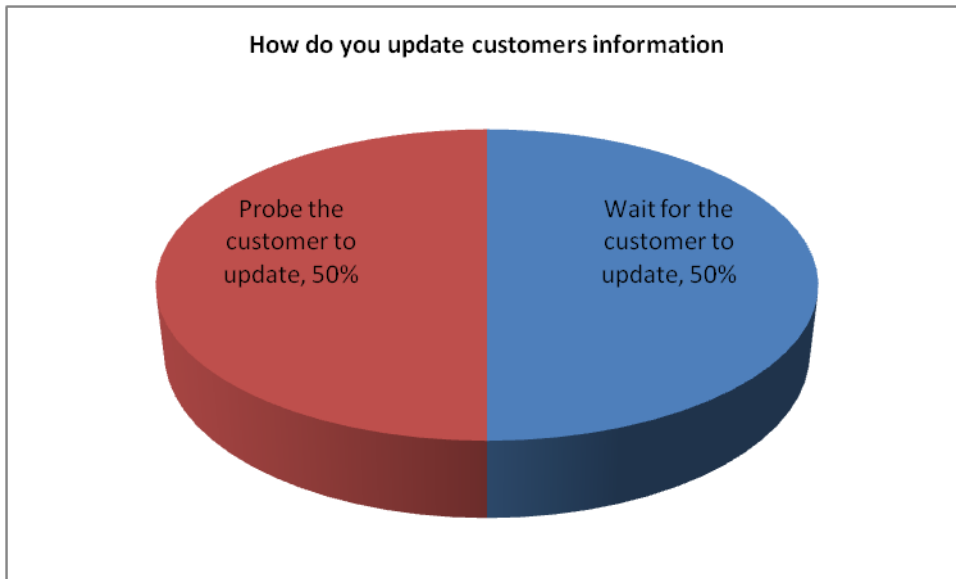
Seventy five percent (75%) of the insurers accept proposal forms when all the information has been filled, 12.5% accept when almost all the information has been filled and the remaining 12.5% accept when most of the information has been reviewed. Following the acceptance 50% of insurers validate all the information provided, 37.5% almost all the information and 12.5 % most of the information (Figure 4.34)

Figure 4.34: When customers’ proposal forms are accepted by Insurers



4.3.4.4 Updating non static customer information.

50% of the insurance companies reports that they update customers’ information by waiting for the customer to update whereas the remaining 50% reported that they prompt the customers to update either through telephone contacts, email or through their statements. Only one insurance company reported to use the two methods to update. (figure 4.35) Figure 4.35: How customer’s information is updated

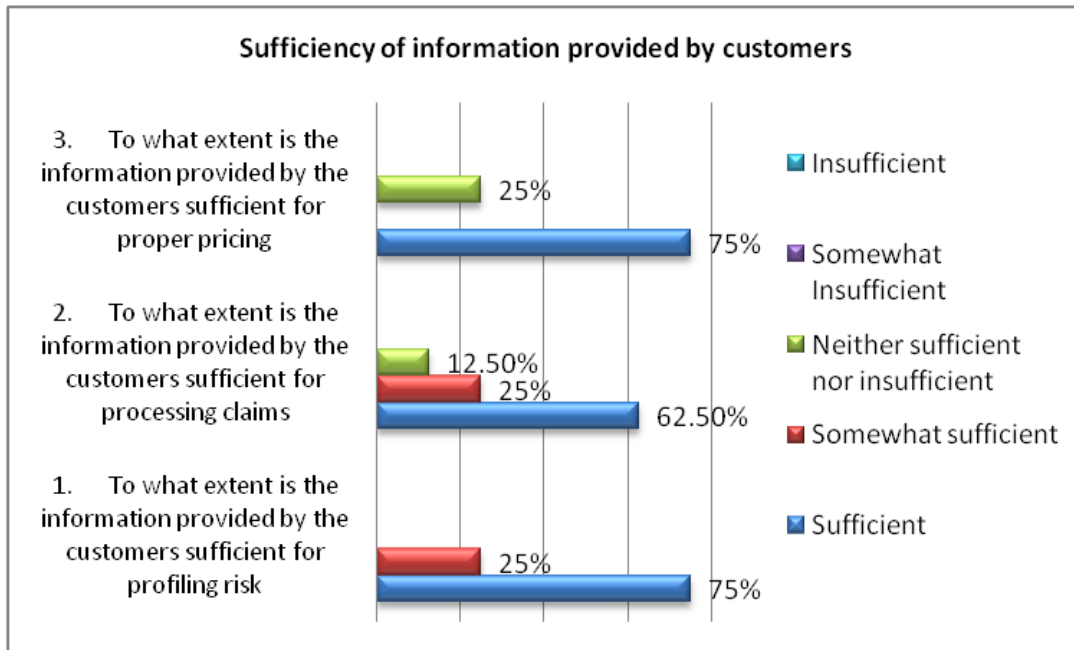


4.3.4.5 Sufficiency of Information provided by customers

Providers were asked to state how sufficient the information provided by the customers was and their responses are recorded in the figure 4.36 below. Most of the provider reported that the information was either sufficient or somewhat sufficient with only 12.5% and 25% reporting that the information was neither sufficient nor insufficient for processing claims and for processing respectively.

In case the information is insufficient insurers deal with it by returning the forms to the customers (66.7%), asking for the documents necessary when required for example during claims or by prorating or adjusting the sum assured or declining claims. This issue need to be addressed before the contract begins because it affects the customer and this could lead to bad relationship between the customer and insurance companies in future.

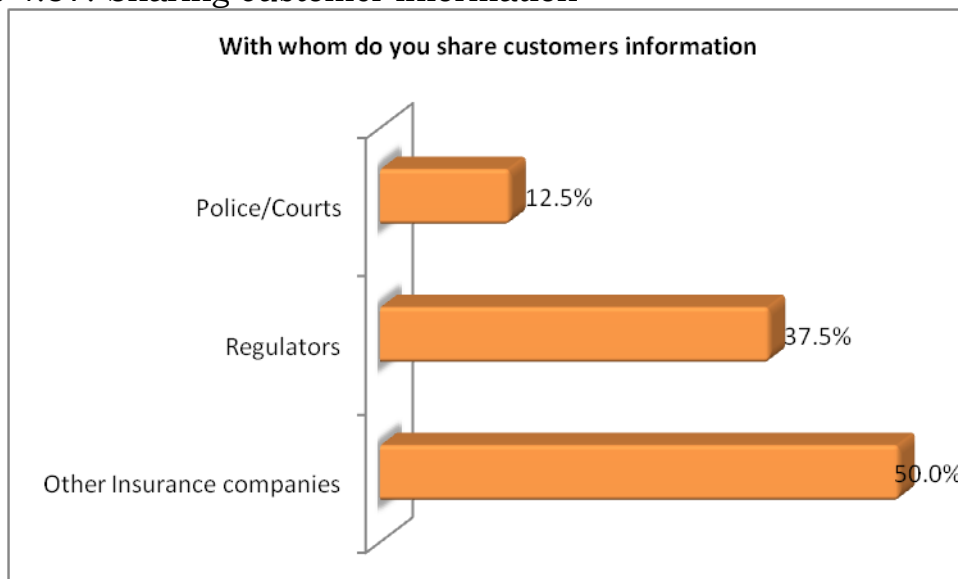
Figure 4.36: Sufficiency of information provided by customers



4.3.4.6 Sharing of customer information.

Customers' information is shared (if necessary) with other insurance companies, insurance regulators and police/courts auditors. Some companies have adapted a separate sheet of paper where they request for bank/check of details which they share with banks and check off institutions. This is a practice that should be adapted as it enlances confidentiality of the rest of the information.

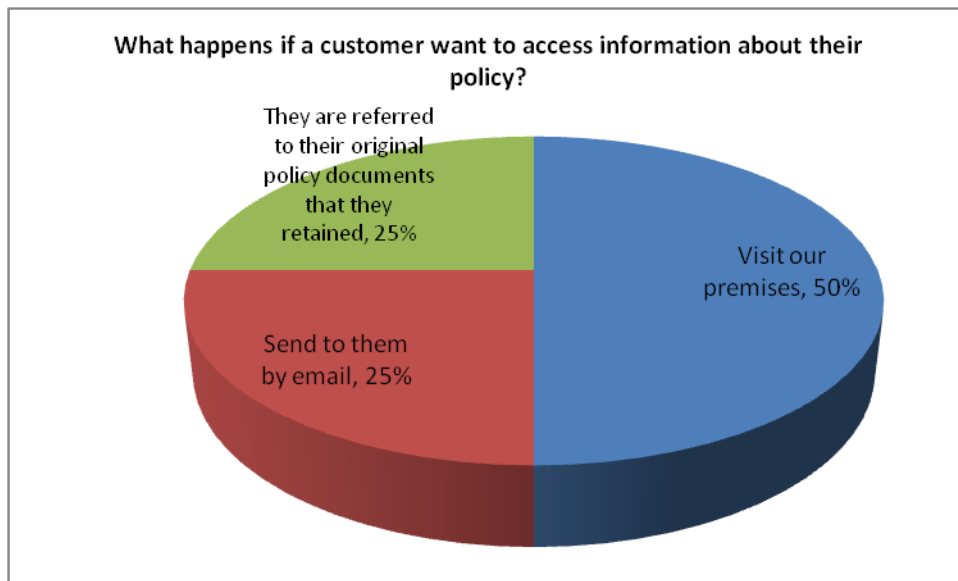
Figure 4.37: Sharing customer information



4.3.4.7 Access to policy information by customers

In case a customer requires to access information they filled on the proposal forms, 50% of the companies require that the customers visit the offices whereas 25% send the information by email and the remaining 25% refer customers to their policy documents.

Figure 4.38: How customers access their policy information



4.4 Analysis of Proposal Form Disclosures

Instructions and features on proposal forms; One out of the eight companies has one main proposal form that has subsections for all life products. The form is therefore not product based, it is generic. This is an indication products offered do not have features or characteristics that call for additional special or specific information.

Only one out of the eight insurance companies has an introduction (at the beginning of the proposal form) to the customer about; Instructions on how to fill and documents required to complete the application

Personal information; All companies requested information on either age or date of birth and asked for evidence of identification with either Identity Card, Passport or Birth Certificate though only five out of eight companies asked for nationality though this is evidenced by provided documents.

Level of education or qualifications attained were requested by only three out of the eight insurance companies

Only one of eight companies requested for job title or proposer's role in business and only four of the eight insurance companies request for income frequency details, whether monthly or annual, though this is a requirement to calculate premiums. Four of the eight companies have asked for the payroll/employee number under personal information though this would be necessary in situations where persons chose salary deductions as means of payment. One company requested for time spent on different duties in their workplace (administration/manual duties/supervisory/travel). Interestingly one company requested for terms of employment (either temporary, permanent or contract) and another for duration of employment with the current employer

Contact details; All companies have requested for postal address, telephone (either home/office, cell phone or both), and email however only three of the eight companies requested for the physical location of either the proposer or the assured

Method of premium payment; Although all the companies have given the customer the opportunity to choose the method of payment, it is important to note that insurance companies have two preferred premium payment methods, direct bank debits or employer deductions. Only one had provision for the customer to indicate authorized debit date.

Medical history; Five of the eight companies asked whether any of the family members have or have died of diseases like diabetes, heart disease, cancer or mental illness. Few companies requested the customers family

history (Father, mother, brothers, sisters); Living (age/state of health) Dead (Age at death, causes of death). Three companies have a section on HIV/AIDs whereas others have questions about HIV as part of the other medical section.

Main beneficiaries; Four of the eight companies have not requested for guardians in case any of the beneficiaries is below the age of the majority (18 years). Three of the eight companies have not requested for the benefit sharing ratio among the beneficiaries and only four companies requested for beneficiary's identification (ID or passport number). Only three of the eight companies requested for the beneficiaries' gender. Details for contingent beneficiary requested by only one company;

4.5 OBSERVATIONS FROM THE FINDINGS OF THE STUDY

Insurance Agents; From the study, it is evident that insurance agents play a key role in providing life cover services. They handle about 80% of the life insurance business. This being the case impact of their actions has far reaching implications to the industry. Important comments from customers included;

- i) Some agents did not seem to understand the life insurance products and had to constantly resort to calling either the insurance company or broker for clarification.
- ii) Some agents went ahead to effect premium deductions without customer's consent regarding the installment amount. The agent later filled in amounts in the bank documents after the customer had filled the rest of the information. One of the clients complained that she had not signed the declaration or even finished with the policy document but premium deductions had since commenced.

- iii) Some of the agents seemed to be conversant with underwriting process but not the claim process.
- iv) The agents did not adequately educate the clients about the insurance products on offer and seemed to have scanty information about the policy.
- v) Through the agents some clients were already listed as life insurance products customers though policy documentation was incomplete. The policy was half way done to allow the agent to consult. However premium payment had not commenced.
- vi) Some agents were said to be unethical in the course of soliciting for business.

Insurance Outlets; It was felt that the insurance companies did not have adequate branch network to accord customers close contact. This may be attributed the over reliance on agents.

Outdated Insurance Database; There was no regular update of records by insurance companies and some forgot to remind and follow up on lapsed policies for renewal.

Inconsistent Deductions; The policy premium amounts were not tallying with the ones advised during application for cover and the amount deducted by the company. In some occasions double deductions for premiums were made.

Technical Jargon; Though the clients appreciated the need for insurance products they felt that there was excessive use of technical terminology which customers couldn't easily understand.

Unremitted Premium deductions; Some employers failed to remit authorized deductions for the payment of insurance premiums.

Policy Documents; Some insurance companies retained all copies of policy documents leaving the customer without any reference documents. Some had retained the original birth certificates.

Other Observations

The gender distribution does not bring out significant difference between male and female customers, however it is important to note that decision making has been male dominated which is attributed to tradition and income disparities with men having higher incomes. Therefore men would have provided a higher proportion of the respondents. This could be attributed to women's high sense of responsibility. The regulator and insurance companies should now target more of men than women in their advertisement but provide more appealing products targeting women for quick wins.

The uptake of life insurance services is highest among the youth above twenty five years followed by the middle age bracket below forty six years. This distribution by age is encouraging and calls for innovation of more products targeting the youth. The youth being sixty percent of the population in Kenya would push penetration of insurance to higher levels.

Use of insurance services by the employed is above eighty one percent with the private sector leading by sixty percent of this. This is a clear indication that the unemployed which form a substantial component of the population has a very low uptake as it forms only nineteen percent. This requires high level of sensitization of the self employed on the need to buy life insurance products to secure the households.

The educated with tertiary level of education and above form about eighty two percent of those who have purchased life insurance products. It is also interesting to note that among those who take life insurance about seventy three percent are married and about twenty percent are single. This means that singles wait until when they are married to take cover. Again those with very high salaries above a hundred thousand shillings per month do not have a high incidence of taking cover. Those with moderate salaries form the larger consumption group.

The main channel of distribution of life insurance products is the agent who sells about eighty percent of the products with over sixty percent learning about life insurance products from the agents. This shows a lot of effort requires to be placed on educating the agents as they are the face or interface between the insurers and the potential customers.

5.0. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Most of those interviewed indicated that the need to provide correct information was emphasized and in any case most of the information was easy to provide before taking life insurance cover.

Only forty two percent of the respondents were requested for their medical reports and out of which only sixty one percent were asked to visit a specific doctor. This is an indication not much emphasis is placed on medical history and condition as a consideration for providing cover by life insurance companies.

Most of the customers, about fifty four percent filled their proposal forms with the rest assisted by insurance agents however language was not a barrier as most of the customers taking life insurance products were versed with English

and Kiswahili. However the majority, about eighty nine percent, sought clarifications from the agents. The major complaint was that there was a lot of usage of technical insurance language that could not be easily understood.

From the research age came out as a major requirement with all the customers being requested to state and proof of their age. It was however apparent from the proposal forms that age and not date of birth was also requested.

The underwriting departments of insurance companies developed most of the proposal forms according to the insurance companies and upon preparation only a few revised them. Over fifty percent have not reviewed them in the recent past. It is also observed that most of the forms are generic, meaning that they are used for most of the life products. They are not tailor made to suit particular products.

It was observed that customer information is not updated frequently as the some of the contact details provided were invalid.

5.2 Recommendations

From the findings of the study, continued financial education of the insuring public is necessary to ensure sufficient levels of investor and consumer protection as well as the smooth functioning of the insurance sector. Innovations and increasing complexity in the insurance markets are transferring additional financial risks to individuals, who have difficulty in evaluating insurance products options available to them and understanding the terms and conditions of the products.

In addition uninformed consumers have become easy targets for mis-selling and they may have purchased products inappropriate for them. Education of customers will enhance understanding of products and make the necessary disclosures and therefore induce insurance uptake. Due to this there is need

for better regulatory standards on marketing of insurance products including disclosure.

There is also need for insurance agents to enable them provide appropriate information to policyholders. Agents require training on customer service and they should be up to date with policy information to be able to advise the customers appropriately. In particular insurance companies should have potent service contracts with qualified agents so that they do not take advantage of customers for purposes of earning a living/commission. Insurance regulators should have a database for agents so that those suspended on indiscipline cases do not end up getting employment on other companies.

The informal sector should be targeted for sensitization of the need for insurance to extend insurance inclusion to them. Currently, as observed from the research the informal or self employed are out matched by the employed. The self employed also require specially designed products that would meet the needs of their business patterns.

Guidelines issued by the regulator should encourage clear, transparent and plain language disclosure on proposals that is standard and comparable across all insurance providers. For instance, providers should be required to prominently display a summary of key terms and conditions of the product and explain their implications. It may be important to disclose the following: the product value, period of the agreement, any fee and charge including broker fees, the instalment and number of instalments and when they are due, etc.

It may be important that every policy document should have contact details which are regularly reviewed of people or personnel who can be contacted by policyholder in case issues arise that require insurance company's attention. Looking at the policy proposal documents these were inadequate or outdated.

Although failure to provide all information may not void an insurance contract especially where such a failure is not intentional, it is apparent from the study the regulator should in the guidelines obligate policyholders to answer an insurer's questions fully, accurately and honestly. Customers need to disclose all relevant information to their insurer to make sure that they are covered appropriately. The law should replace the requirement for consumers to volunteer information about everything which a "prudent insurer" would consider relevant with the requirement that insurers ask particular questions to obtain specific information about the customer. The law/rule should provides further clarity by setting out a series of proportionate remedies which insurers will be able to use when deciding if a claim is valid in case of inadequate information; They could be; If the consumer acts honestly and with care they will be protected and the insurer should pay the claim in full; If the consumer answers questions carelessly, but it was not deliberate, the insurer would be able to apply a 'proportionate remedy'. In other words, they would assess the claim applying the relevant exclusions or increased premium as they would have done, had the consumer provided all the relevant information when taking out the policy; If the consumer makes a deliberate or reckless misrepresentation, the law/rule should permit the insurer to treat the contract as if it did not exist and refuse all claims.

Players in the insurance industry need to lay more emphasis on Know Your Customer (KYC) by insurer and Know Your Insurer (KYI) by customer. Currently it seems most of the insurance companies are not meeting KYC requirements and therefore breaking the proceeds of crime and ant money laundering law.

Due to the high incidence of failed contacts most beneficiaries do not get benefits therefore there is need to make it mandatory for regular review of contacts. The regulator should compel all insurance companies to review all the proposal forms and ensure that they are updated to capture current information needs including customer contacts and other details.

Proposal forms and documentary requirements should be standardized for particular requirements among all the insurance companies. These requirements include, traffic offences and driving history, criminal record, family history etc. like in other jurisdictions.

Law should be reviewed to outlaw and criminalise failure deduct and remit authorized deductions for the payment of insurance premiums.

5.3 Recommendation for further Research

The course of the research it became apparent that there are incidences of fraud. There is need to commission a research to assess the current incidences of fraud and preventive measures with a view to minimizing them. Due to the recent technological developments and sophisticated products there is need to come up equivalent measures to contain fraudulent activities in the sector.

There is need to conduct further research on the extent of unclaimed benefits and reasons for thereto in order to come up with measures for correction and avoiding similar situations in the future.

Agents being key players in the sector there is need to commission a research to find out the challenges they face in dealing with customers with a view to making recommendations in changing the perceptions of customers towards insurance agents. There seems to a negative perception of agent's suitability.

In overall there is need to conduct a survey on status of enterprise risk management. Having issued guidelines on the need for a risk framework and having made it a compliance requirement. It is important to find out challenges facing the insurance companies in compliance.

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APPENDIX 1:Customer Questionnaire



INSURANCE REGULATORY AUTHORITY

Serial No:

**Insurance Industry Customers Disclosure;
Assessment of Adequacy of Information
Customers' Questionnaire**

1.1.1.1.1.1.5

Interview Date: (DD MM YY)

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Interview start time; [HH MM - 24 hour time]

--	--	--	--

Respondent name;

--

Respondent phone number;

--	--	--	--	--	--	--	--	--	--

Respondents email;

--

Insurance Company:

--

Type of Product:

--

Name of Product:

--

INFORMED CONSENT

Good Morning/Afternoon **(First Name of respondent)**. My name is a researcher with the Insurance Regulatory Authority (IRA) carrying out a survey on the services you receive from insurance companies. This research is intended to improve disclosure of information by policyholders to insurance companies. The information you will give will be used strictly for research purposes and will be treated with utmost confidentiality; the findings will be reported on aggregate not on individual basis.

You were randomly selected as an important stakeholder to participate in this study and therefore we would appreciate if you could spare some of your valuable time to respond to a few questions on the same; the exercise will take about 30 minutes.

INFORMATION ABOUT THE POLICY

1. Do you have any insurance policy?
 - i. Yes
 - ii. No
 - iii. **(If yes)** which one(s).....
2. How many life insurance policies do you hold?
(Record the names of the policies then for each ask the following questions and record the responses on the table below):

Name of Policy	Name of Insurer	Insurer	Maturity Date	Premium	Insurance coverage amount

Read out the sentence below to the customer:
 The questions we are going to ask you are in relation to
(Insert name of policy mentioned in Page 1)

3. Who sold you the policy?
(Do not read out the answer options. Wait for customer to answer and mark appropriately)
 - i. Agent
 - ii. Insurance company
 - iii. Broker
 - iv. Others (Specify).....
4. How did you get to know/learn about the policy?
(Do not read out the answer options. Wait for customer to answer and mark appropriately)
(Multiple response possible)
 - i. From an agent
 - ii. From the insurance company
 - iii. From a broker
 - iv. From media (radio, TV, newspapers, internet, brochures)
 - v. Recommendation from friends/relatives

vi. Others (Specify)

5. For how long have you had this policy?

- i. 5 years and below
- ii. 6 to 10 years
- iii. 11 to 15 years
- iv. 16 to 20 years
- v. 21 years and above

6. How long have you been a customer of (*mention name of company mentioned in question 3*)?

- i. 5 years and below
- ii. 6 to 10 years
- iii. 11 to 15 years
- iv. 16 to 20 years
- v. 21 years and above

7. Who amongst your beneficiaries is aware of the existence of this policy?

- i. Spouse
- ii. Children
- iii. Brother/Sisters
- iv. Parents
- v. Friends
- vi. Others (specify) _____
- vii. None

8. On a scale of 1 to 5 where; 1. Strongly Agree 2. Agree 3. Neither Agree nor Disagree 4. Disagree 5. Strongly Disagree; to what extent do you agree with the following statements concerning the information you were expected to provide;

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
a) My beneficiaries are aware of all the details of my policy including benefits.	1	2	3	4	5

INFORMATION DISCLOSURE

(Read out the sentence below to the customer);

In this section we are going to talk about the information asked for before purchasing the insurance policy

9. On a scale of 1 to 5 where; 1. Strongly Agree 2. Agree 3. Neither Agree nor Disagree 4. Disagree 5. Strongly Disagree; to what extent do you agree with the following statements concerning the information you were expected to provide;

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree

a) The importance of providing the correct information was explained to me by the person who sold the policy to me	1	2	3	4	5
b) The information was clear/easy to understand	1	2	3	4	5
c) The person who sold the policy to me explained the use of the information	1	2	3	4	5
d) The information provided by the person who sold the policy to me affected the honesty of information i gave	1	2	3	4	5
e) I was satisfied with the kind of information asked	1	2	3	4	5
f) I was honest with the information i provided	1	2	3	4	5
g) The information provided was easy to provide	1	2	3	4	5

10. Are there some questions that required immediate response yet you did not have the information at hand?

- i. Yes
- ii. No

11. ***If yes to Q10***, which questions?

(Do not read out the answer options. Wait for customer to answer and mark appropriately)

- i. Personal Information
- ii. Information about the Beneficiaries
- iii. Medical History
- iv. Other (Specify)

12. ***If yes to Q10***, how did you deal with the question?

(Do not read out the answer options. Wait for customer to answer and mark appropriately)

- i. Asked for extra time to clarify
- ii. Gave a wrong response
- iii. The person who sold the policy to me led me into answering
- iv. Did not answer
- v. Other (Specify)

13. Were you requested to produce any documents during the application to prove the information provided?

- i. Yes
- ii. No

14. ***If yes to Q 13***, which ones?

.....

15. Were you requested to state your age?

- i. Yes
- ii. No

16. ***If yes to Q 15***, were you requested to provide any documentary evidence?

- i. Yes
- ii. No

17. Were you asked to provide a medical report?

- i. Yes

ii. No

18. In providing the medical report, were you requested to visit a specific doctor?

- i. Yes
- ii. No

19. **(If requested to visit a specific doctor)**, how were the results transmitted to the insurance company?

- i. By myself
- ii. By the Doctor
- iii. Don't know how the results were sent
- iv. Did not follow up
- v. Other (specify).....

20. On a scale of 1 to 5 where; 1. Strongly Agree 2. Agree 3. Neither Agree nor Disagree 4. Disagree 5. Strongly Disagree; to what extent do you agree with the following statement;

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
a) The documentation requirements in my insurance company are easy to meet	1	2	3	4	5

21. **(If answer to Q20 you disagree or strongly disagree)**, kindly state which ones?

.....

22. What language did the person who sold the policy to you use when requesting information from you?

- i. English
- ii. Kiswahili
- iii. Both English and Kiswahili
- iv. Native Language
- v. Other

23. On a scale of 1 to 5 where; 1. Strongly Agree 2. Agree 3. Neither Agree nor Disagree 4. Disagree 5. Strongly Disagree; to what extent do you agree with the following statement,

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
a) The language was easy to understand?	1	2	3	4	5
b) The information about the policy was easy to understand?	1	2	3	4	5

24. Who filled the proposal form?

- i. Myself
- ii. The agent filled the proposal form
- iii. I partly filled the proposal form
- iv. The agent partly filled the proposal form

v. Other (specify)

25. **(If you the agent filled the proposal form)**, did provide the answers?

- i. Yes
- ii. No

26. **(If yes to Q25)**, before signing the proposal form, did you confirm if the answers you gave were the ones written on the form?

- i. Yes
- ii. No

27. Where did you fill your proposal form?

- i. In the office of the agent?
- ii. In my office/home
- iii. In a hotel
- iv. Other (specify)

28. Was the place mentioned above your preferred location for filling the proposal form?

- i. Yes
- ii. No

29. **(If no to Q28)**, where would you have preferred to fill the application form?

.....

30. Did the location where you filled the application form have an effect on the information you gave?

- i. Yes
- ii. No

31. **(If yes to Q30)**, kindly state how it affected the information you gave;

.....

32. At what point did you sign the declaration in the proposal form?

(Do not read out the answer options. Wait for customer to answer and mark appropriately)

- i. Immediately I met the person who sold the policy to me
- ii. After I answered the question
- iii. After I clarified all the information needed (State how long it took).....
- iv. Other (Specify).....

33. On a scale of 1 to 5 where; 1. Strongly Agree 2. Agree 3. Neither Agree nor Disagree 4. Disagree 5. Strongly Disagree; to what extent do you agree with the following statement;

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
I was comfortable signing the declaration at the point when I signed	1	2	3	4	5

34. **(If answered 4 or 5 to Q33)**, kindly state reasons why you signed the declaration at that point?

.....

35. Were there terms that needed clarification before you signed the declaration?

- i. Yes
- ii. No

36. **(If yes to Q35)**, how did you deal with that?

.....

37. On a scale of 1 to 5 where; 1. Strongly Agree 2. Agree 3. Neither Agree nor Disagree 4. Disagree 5. Strongly Disagree; to what extent do you agree with the following statements;

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
a) The person who sold the policy to me informed me of the consequences of not providing the correct information	1	2	3	4	5

38. **(If answered 1 or 2 in Q 37)**What are some of these consequences of not giving correct information?

.....

39. On a scale of 1 to 5 where; 1. Strongly Agree 2. Agree 3. Neither Agree nor Disagree 4. Disagree 5. Strongly Disagree; To what extent do you agree with the following statements:

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
a) The insurance company has never made a follow up on the information i gave in relation to this policy	1	2	3	4	5
b) I was willing to take the life insurance policy	1	2	3	4	5
c) I unwillingly took the life insurance policy	1	2	3	4	5

40. What suggestion would you give on ways for improving on information disclosure when a customer is entering into a policy contract with an insurance company?

.....

41. What can be done to ensure customers provide accurate information?

.....

42. Apart from today, have you heard of the Insurance Regulatory Authority (IRA)?
- i. Yes
 - ii. No

43. **(If Yes to Q42)**, from what sources?
(Multiple responses are possible)

- i. From Media
- ii. From my Insurer(s)
- iii. From friends/relatives
- iv. In a public meeting
- v. Others (Specify).....

44. **(If yes to Q42)**, what is its mandate?

RESPONDENT INFORMATION

45. Gender

- i. Male
- ii. Female

46. Age

- i. 18 to 25 Years
- ii. 26 to 35 years
- iii. 36 to 45 years
- iv. 46 to 55 years
- v. 56 years and above
- 99) Refused to Answer

47. Highest Level of Education

- i. No formal education
- ii. Primary school
- iii. Secondary School
- iv. Tertiary level/College/university (graduate and post graduate)
- 99) Refused to Answer

48. Employment Status

- i. Unemployed
- ii. Self Employed
- iii. Employed –Public Sector
- iv. Employed –Private Sector
- v. Retired
- 99) Refused to Answer

49. Monthly income of the insured (from all sources)

- i. Below KSh 20, 000 per month
- ii. KSh 20,001 to KSh 40, 000 per month
- iii. KSh 40,001 to KSh 60, 000 per month
- iv. KSh 60,001 to KSh 80, 000 per month
- v. KSh 80,001 to KSh 100, 000 per month
- vi. Above KSh 100,001 per month.

99) Don't Know/Refused to Answer

50. Monthly expenditure of the insured

- i. Below KSh 20, 000 per month
- ii. KSh 20,001 to KSh 40, 000 per month
- iii. KSh 40,001 to KSh 60, 000 per month
- iv. KSh 60,001 to KSh 80, 000 per month
- v. KSh 80,001 to KSh 100, 000 per month
- vi. Above KSh 100,001 per month

99) Don't Know/Refused to Answer

51. Marital status

- i. Married
- ii. Single
- iii. Divorced/Separated
- iv. Widowed

99) Refused to Answer

Interviewer's name;

Supervisor name;

Interview end time; [HH MM - 24 hour time]

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Customers Signature

THANK THE RESPONDENT AND CLOSE THE INTERVIEW



INSURANCE REGULATORY AUTHORITY

Serial No:

**Insurance Industry's Customers Disclosure: Assessment of Adequacy of Information
Providers Questionnaire**

Interview Date: (DD MM YY)

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Interview start time; [HH MM - 24 hour time]

--	--	--	--

Respondent name;

--

Respondent phone number;

--	--	--	--	--	--	--	--	--	--

Respondents email;

Insurance Company:

Department:

Section:

INFORMED CONSENT

Good Morning/Afternoon (***First Name of respondent***) . My name is -a researcher with the Insurance Regulatory Authority (IRA) carrying out a survey on the services you provide. The research is intended to improve insurance services provided by life insurance companies. The information you will give will be strictly for research purposes and will be treated with utmost confidentiality; the findings will be reported on aggregate not on individual basis.

We would appreciate if you could spare some of your valuable time to respond to a few questions on the same; the exercise will take about 20 minutes.

PERSONAL INFORMATION

1. How long have you worked in the insurance industry?
 - i. Less than 1 year
 - ii. 1 to 3 years
 - iii. 4 to 6 years
 - iv. 7 to 10 years
 - v. More than 10 years

2. How long have you worked in this company?
 - i. Less than 1 year
 - ii. 1 to 3 years
 - iii. 4 to 6 years
 - iv. 7 to 10 years
 - v. More than 10 years

3. How long have you worked in this department?
 - i. Less than 1 year
 - ii. 1 to 3 years
 - iii. 4 to 6 years
 - iv. 7 to 10 years
 - v. More than 10 years

INFORMATION DISCLOSURE

4. Who is in charge of developing the proposal forms?

- i. Management Team
 - ii. Underwriting Department
 - iii. Risk Department
 - iv. Internal Auditor
 - v. Consultant...
 - vi. Others (Specify).....
5. How regularly does your company review the proposal forms?
- i. Annually
 - ii. One to three years
 - iii. Four to five years
 - iv. Above five years
 - v. As need arises.....
6. When were the current proposal forms last reviewed?
- i. Within one year
 - ii. Two to three years
 - iii. Four to five years
 - iv. Above five years
 - v. Not known
7. After the proposal forms have been reviewed, how do you handle existing policyholders?
- i. Ask them to provide additional information
 - ii. Ask them to fill proposal forms afresh
 - iii. They are not affected
 - iv. Others (Specify).....
8. At what point do you accept proposal forms from the customer?
- i. When all the information has been filled
 - ii. When almost all the information has been filled
 - iii. When most of the information
9. Do you validate
- i. All the information
 - ii. Almost all the information
 - iii. Most of the information
10. How regularly do you update non static customer information?
- i. Annually
 - ii. Two to three years
 - iii. Four to five years
 - iv. Above five years
 - v. As need arises
11. How do you update non static customer information?
- i. Wait for the customer to update
 - ii. Probe the customer
12. In your opinion, to what extent is the information provided by the customers sufficient for

	Sufficient	Somewhat sufficient	Neither sufficient nor insufficient	Somewhat Insufficient	Insufficient
1. Profiling risk	1	2	3	4	5
2. Processing claims	1	2	3	4	5
3. Proper pricing	1	2	3	4	5

13. **(If the answer to Q12 is 2, 3, 4 or 5 ask)**, how do you deal with insufficient disclosure?

14. With whom does the company share the customer information?
- i. Other insurance firms
 - ii. Regulators
 - iii. Police/Courts
 - iv. Credit Reference Bureau
 - v. Research Agencies
 - vi. Banks
 - vii. Others (Specify).....

15. If customers want to access the information about their policy, how does it happen?
- i. Visit our premises
 - ii. Send to them by email
 - iii. Send to them by post
 - iv. They are referred to their original policy documents that they retained
 - v. They have no access
 - vi. Other (specify).....

16. What additional suggestion would you give to help improve the level of information disclosed by customers?

Interviewer's name;

Supervisor name;

Company Respondent Signature/Stamp

Interview end time; [HH MM - 24 hour time]

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THANK THE RESPONDENT AND CLOSE THE INTERVIEW