CENTRAL BANK OF KENYA

Message by

PROF. NJUGUNA NDUNG'U
GOVERNOR
CENTRAL BANK OF KENYA

and

THE CHAMPION OF FINANCIAL EDUCATION IN KENYA

at the

Financial Education Partnership Champion's Breakfast Meeting with the Insurance Sector

Crowne Plaza Hotel, Nairobi
Monday, 20th September 2010

Mr. Sammy Makove, Chief Executive Officer, Insurance Regulatory Authority;
Mr. Tom Gichuhi, Chief Executive Officer, Association of Kenya Insurers (AKI);
Ms. Bilha Maina, Project Manager, Financial Education, FSD Kenya;
Distinguished guests;
Ladies and Gentlemen:

I am honoured to speak at today's breakfast meeting with the representatives of the insurance sector; this is a rare opportunity to highlight the status of financial education in Kenya as it concerns the insurance industry, an integral part of the financial sector.

I am indeed grateful to the FSD Kenya for hosting this gathering and to all participants for the honour of your presence.

Ladies and Gentlemen: My brief this morning is on financial education and consumer protection in relation to the insurance industry in Kenya. For a contextual background, allow me to recap the latest statistical highlights on financial inclusion in general and specifically insurance services, as reported in the 2009 National Financial Access Survey.

- As at June 2009, 32.7% of the Kenyan population had no access to any financial services. This was 6% drop from the 38.4% reported in 2006;
- The survey indicated that in 2009, only 7% of the Kenyan population used insurance products and 91% of the population have never used insurance products;
- In absolute terms, out of a population of 38 million, those using insurance products are approximately 1.3 million only;
- 48% of the population is ignorant of the meaning of insurance and its usefulness;
- The highest usage of insurance products was with the government-run National Hospital Insurance Fund (NHIF) and the National Social Security Fund (NSSF), serving 4.2% (777,000) and 2.9% (536,000) of potential financial services consumers, respectively. In strict terms, however, these two are effectively statutory deductions rather than insurance arrangements for risk mitigation entered into voluntarily. Their apparent high "use" so to speak, may be attributed more to the need to comply rather than to individual volition to mitigate against risks they face on their day to day activities; and
- According to the Insurance Regulatory Authority (IRA), the total life insurance policies in force as at the end of 2009 numbered just under 450,000 while all other policies, through extrapolation, were estimated at less than one million.

Ladies and Gentlemen: From the foregoing, the general picture emerges: A major challenge facing the Kenyan financial sector in general and the insurance industry in particular is the lack of awareness by the target market. The statistics indicate that insurance, as a financial service, is yet to be recognized as an available risk-mitigation tool by much of the population. Whereas life's risks are known from practical experience, not many are aware that insurance is available as a viable solution to those risks. In times of financial crises caused by occurrence of misfortunes, many continue to rely on traditional sources of help such as family and friends, sale of physical assets, personal savings and emergency borrowing – including the dreaded shylocks. We need to parade the insurance products and the potential risks they mitigate.

Ladies and Gentlemen: As players in the insurance sector, it is your task to sensitize your prospective customers on your products not only as a marketing strategy but as part of your corporate social responsibility. This will of course translate to more business in future when the prospective customers concretize your messages. In this regard, I encourage you to come up with sustained efforts to enlighten the public through provision of credible, relevant and adequate guidance on the role and usefulness of insurance as a risk management service.

As you know, an enlightened customer is empowered, and business is thereby made easier and faster when dealing with them. Certainly, the returns will not be reaped overnight. However, the potential long-term business gains make it merit your investment.

Ladies and Gentlemen: The insurance sector regulator, IRA, through its participation in the Domestic Financial Sector Regulators Forum, is part of our collective efforts as regulators of the financial sector to demystify financial services to the public. The Forum has resolved to jointly undertake financial education activities to raise awareness on our various roles towards the economic development of our country. The financial sector is expected to play a critical role in realizing the country's aspirations under Vision 2030 of becoming a middle income country by 2030.

The increasing inter-linkages between players in the various sub-sectors in the financial sector informed the coming together of the regulators to facilitate our collaboration in our various activities which are generally geared towards a sound, efficient and stable financial sector. For us to achieve these objectives, our consumers must fully appreciate what we do. The best way to do this is through financial education.

Ladies and Gentlemen: Allow me now to briefly share with you some few aspects which you need to consider as you rollout your various awareness and sensitization campaigns. These are those aspects that determine the publics' perception of insurance as an industry, and that affect your collective reputation.

- **Emphasize on the usefulness (positive benefits) of insurance to the insured**- The real benefits of the product as a value-proposition to the prospects should be emphasized. The prospects need to be convinced of their status as the primary beneficiary in any contract of insurance, in order to be volitionally interested in the product. Financial education should be aimed at eliciting the said conviction and interest.

- **Cost-effectiveness- Insurers should be mindful of the low**-income status of most of the uninsured public in Kenya and tailor their offerings accordingly. The micro-insurance initiatives launched recently are a commendable step in this direction.

- **Simplification of product structure and procedures** – products proposals, and financial education content should be straightforward, and in language plain enough for the ordinary customer to follow.

- **Transparency, integrity and credibility** – The consumer protection diagnostic study undertaken in 2010 showed significant customer dissatisfaction with the manner in which insurance products were marketed as well as the tedious and protracted claims process. For a service based on trust, these observations create a negative perception in prospective customers, and undermine their confidence. To avoid this, the industry should be seen to operate transparently and above board. As for any financial service, associations that portray the industry in a negative light need to be avoided. Financial education initiatives will need to clearly lay down the standards of integrity and consumer protection which the insuring public should expect of all players in the industry.

Ladies and Gentlemen: I need not belabour the benefits of financial education to your business. However, let me reiterate that the widespread public mistrust of insurance providers and their products could hinder the effective implementation of a financial education strategy in this sector. Consumer protection is therefore a requisite step to the implementation of the strategy. The ongoing work by the IRA to adopt standardised policy wording for the industry should be fast tracked. I also suggest that you consider introducing transparency regulations where there is a uniform disclosure regime for pricing and policy conditions particularly conditions related to claims settlement.

I would also remind you the benefits of being customer centric. Your products and services will elicit adequate interest if they are tailored towards the needs of the customers. To effectively do this, you need to be aware of the segments in the market. I am informed that there are three key population segments in our market that you need to be aware as you develop your products:

- *The underserved or unbanked* – who largely need short term insurance products to manage emergencies brought on by bereavement, crop failure etc.;
- *The middle income disciplined planners* – who are the more served group in insurance but need to develop skills to seek the right advice, negotiate and advocate for their rights; and
- *The elite but sometimes risky banked segment* – who require financial planning tools for wealth generation, on which to fall back on in old age.

In conclusion, **Ladies and Gentlemen**, for financial institutions in Kenya to secure their future, they need to remain conscious to the needs and sensitivities of the target market. The current level of financial exclusion in Kenya indicates that financial services in general, and particularly insurance, have largely not tailored their products to the needs of the market. In this regard, concerted action is therefore needed from all players in devising sufficient incentives that will raise interest and participation in insurance by the currently uninsured public. Both actual and prospective customers should be adequately sensitized to appreciate how insurance may be beneficial to themselves so as to encourage sustained volitional participation.

I take this opportunity to urge you as the players in the insurance industry to continue to actively participate and support the financial education partnership spearheaded by FSD Kenya aimed at the development and implementation of a comprehensive national strategy for Kenya.

With these few remarks, Ladies and Gentlemen, I thank you all for your attention.