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LIFE, HEALTH AND PENSION PLAN PRODUCTS IN KENYA

BY SHIRAZ JETHA

Kenya is a beautiful country of some 30 million people in Central-East Africa and like several countries on the continent, it has begun taking steps to put itself on the path of development.

There is a wide disparity of wealth between the few "haves" and the many (in excess of 50 percent) who survive around the poverty level. The country's infrastructure is quite run-down, and the system is badly in need of accountability and transparency. Its neighboring countries, once in a similar plight, have more recently begun to embark on a path to prosperity through good economic growth along with donor assistance—largely by listening and responding to the investor and donor communities and taking steps to improve their confidence levels.

Indeed, modern business practices—adapted to the local culture—are becoming more visible in the community.

As Kenya takes steps to get its house in order, including the creation of an investor-friendly climate, its progress along the "development" curve should also be faster, since the painful "learning" that the western economies went through in their transition to the modern technologies will be bypassed as these technologies come into use here. Indeed, modern business practices—adapted to the local culture—are becoming more visible in the community.

Turning to the insurance business, with the prevalence of HIV/AIDS estimated in the 10-15 percent range, the conduct of the life and health insurance business has been significantly affected by this condition. In many cases, coverage is excluded if a claim arises from the condition—this is in addition to testing at all levels of coverage for individual insurance. Testing has in the past proved unreliable with many instances of early AIDS claims following a "clean" test result. This has caused insurers to establish their own professional panels across the country.

The government has tried, from time to time, to have the insurers be more receptive to finding solutions for covering HIV/AIDS at some level, while the insurers have been less than willing to step up to the challenge single-handedly. A new comprehensive bill is up before the Parliament, which will require some level of "untested" coverage and it is difficult not to see it go through in some form or other at some time given the likely positive political fallout. In the group-life product line, companies have generally covered HIV/AIDS below the free-cover limit.

As more has become known of the condition, including the benefits from drug therapy (which has become considerably more affordable of late), we have started to see isolated offerings of individual life products covering AIDS without medical testing for the condition.

INSURANCE MARKET IN KENYA

(a) Life insurance and retirement products

Both product lines are offered in the group and individual modes. Traditionally the individual products have been sold through career agents, while the group products have been sold through brokers. However, there is some direct selling too.

Group products are essentially group life policies. More and more a "funeral" benefit is also available which essentially pays a smaller sum in 48 hours with expedited paperwork. Permanent total disability (PTD) could also be included with the group life coverage. Critical illness coverage (mostly as acceleration of part of the death benefit on diagnosis of defined conditions) is also starting to become more common. Optional group life or even group permanent life is not offered in the market.

The trend toward defined contribution (DC) pension plans is also evident in Kenya with more and more plans converting out of the defined benefit (DB) form. This trend has been driven mostly because of inadequate funding in the past to the point where employer contributions have now grown to the order of 25 to 30 percent. For the group pension business, insurers offer not only administration services, but also are "solely" able to provide (through exclusive legislation) an investment vehicle called the "guaranteed fund," which is essentially an investment fund with mild investment guarantees. Interest crediting is generally on

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the "portfolio average" approach. As in many other parts of the world, contributions to a pension plan are tax favored within limits.

Individual products have tended more to the savings variety compared to the pure risk types and also tend toward "par" products with reversionary bonuses. So endowments, especially with frequent partial maturities, ("money back" policies) are popular.

Another type of savings product that has significant public appeal is one directed at funding for future educational costs for children. Children's education is an emotional issue for Kenyans, and the product taps right into this sentiment. From an insurer standpoint, the mortality risk profile is also perhaps "friendlier." There is scope for more innovation with these education policies, especially for those companies able to find solutions to provide for increasing costs of education or, even better, for educational costs abroad in the product design. Life insurance premiums are partially tax favored in Kenya.

The law also allows for personal pension plans where there is no company pension plan or as a vehicle to hold funds arising from refunds coming from a pension plan on account of termination of employment (rollover IRA concept). At this time only insurance companies can sell these personal pension plans; however, the marketing of this product has been virtually nonexistent and hence its participation is low. Going by the North American experience, initially the growth of the individual retirement savings products (IRAs, registered retirement savings plans (RRSPs) in Canada) was also slower, and so perhaps it might only be a matter of time before personal pension plans really pick up since it is one of the very few tax breaks available in Kenya for individuals.

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(b) Medical insurance in Kenya

This is an area that offers the best opportunity for growth. However it is also an area that insurers (and reinsurers) are most nervous about. Most all who have participated in this line in the past have suffered large losses at one time or another. To make matters worse, companies describing themselves as HMOs set up health "insurance" businesses in the '90s without proper pricing know-how, capital levels or management skills. Because they were defined as HMOs, they even escaped regulatory oversight. These companies offered generous coverages and pricing and competitively forced insurers to respond. Their arrival was viewed as the answer to the high cost and coverage limitations of health insurance. The result was quite ugly. Coverage disappeared virtually overnight in many cases as companies ran into severe financial difficulties. The suppliers of health coverage have reduced dramatically in Kenya over the past 12 to 18 months while the demand remains high. It's been virtually impossible to interest insurers in coming correctly into the market, given the opportunity for proper pricing through diminished competition. Memories are too painful and too recent.

One of the election promises made by the government was the introduction of "free" (or subsidized, perhaps) medical care. The proposals do include a role for the private sector. Because adequate national health programs can be quite expensive (running upwards of 7 percent of GDP), it is not clear what the ultimate shape of the program will be. At one extreme the role for private insurer could be extensive, and at the other it could be peripheral. A major comprehensive program could prove disastrous and also would be out of sync with the economic and other priorities for the nation.

THE FUTURE

Product trends from North America have already started to enter the market. For example, a universal life type of policy with flexible premiums and coverage is being offered by at least one company

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NAIC'S LHATF APPROVES CREDIT MORTALITY REGULATION

BY CHRIS HAUSE

Hot off the presses! The Life and Health Actuarial Task Force (LHATF) has approved a model regulation that sets the 2001 CSO Male, Composite, Ultimate Table as the minimum reserve standard for credit line insurance liabilities. According to the normal course of events, final NAIC approval wil come at the June meeting.

Many thanks go out to the SOA's Credit Insurance Experience Committee and industry representatives, who put in many hours on the sturdy and several drafts of the model.

The job still remains to secure adoption of the model on a state-by-state basis. We hope with the new model and the acceptance of the 2001 CSO for ordinary issues, that will be a smooth task.

If you have any questions about the model, feel free to contact me at chrish@hauseactuarial.com.

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and similarly for critical illness coverage and unit-linked policies. These developments will continue as the market and the buyer evolves.

Individual life premiums make up about 0.5 percent of GDP and so as the economy recovers and prosperity levels improve, there is room for growth, even more so in the retirement savings and medical care side. While the HMO story has been one of lost credibility, there have been isolated successes as well. These are operations that are very well managed (along the U.S. business models) and run by U.S. experienced management and are doing very well in a "retrenched" supplier market.

Currently there are about 20 insurers (offering life insurance) serving a population estimated at 32 million, including some well-known foreign companies. There is likely to be consolidation in the market. Increasingly the companies will also find growth opportunities in neighboring countries and so will become more regional in their operations.

There is a will to progress in the country and that, along with an investor-friendly climate and a genuine commitment to openness and accountability, will provide the key ingredients that will fuel the growth.

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whether they participated in the program. The participants may even feel that the programs become a "no-cost" benefit.

Even small insurance companies have a sufficient number of insureds to make CLV programs operationally and monetarily feasible. While each situation stands on its own, it is possible to work with relatively small numbers because of the high response rates.

The additional revenue from CLV programs must find its way into the actuary's profit calculations. Depending on the circumstances, it might be easiest to reduce marketing costs by the CLV profits, but it would also be appropriate for the company's actuary to create a more detailed customer lifetime value model which includes both the original insurance and the CLV programs when testing profitability.

Regardless of the specific CLV programs used, the most important step is to get started. If needed, start with a very basic step but implement a CLV program. If you need confirmation that CLV should be initiated, remember that academics have finally confirmed what actuaries and marketers have known for a long time: CLV programs work!