WAICA 2014 Annual General Meeting & Education Conference, Monrovia-Liberia

Modern Technological Advances and the Development of the Insurance Industry in West Africa (The East African Experience)

Presented By George Kojo Addison, EMBA (Finance), ACII, Chartered Insurer, ACIMG; MD, StarLife Assurance Company Limited, Accra-Ghana

Overview → Topics

1. General Introduction
2. Setting the Scene - Technology, Penetration & Regulation

3. Technological DRIVERS of increased insurance penetration
   - Database Technology
   - Marketing Technology
   - Sales Technology
   - Contracting Technology
   - Collection Technology
   - Administration Technology
   - Underwriting Technology

4. Technological DEVELOPMENTS in East Africa
   - Technological Enablers: M-Pesa & Equity Bank
   - Technological Innovations: Kilimo Salama & Salamasure

4. Conclusion

I am born for the Internet

born 4 internet.mp4

General Introduction

- There are **two** main forces shaping businesses and institutions in the 21st Century – PWC Life 2022 Report.
- These forces are **technological advances** and the **advent of the 'Smart' Customer**
- Customers are becoming 'smart' and they require 'smart products and services' to satisfy their needs.
- Processes required to produce these 'smart products and services' are based on smart architecture and know-how.

Survivors are those businesses that become smarter

Setting the Scene

Let’s examine the following questions:

- Are we aware of the **huge opportunities being created by modern technological advances** in the financial services sector especially in insurance?
- Are we equipping our ICT departments and personnel with the **right tools, training and skill** to identify modern technological advances and their impact on our operations?
- Are insurance companies aware of the **increasing sophistication of the “smart” customer**? Most customers/policyholders are ahead of their insurers in the use of technology. Survivors will be those insurers that are able to bridge this ‘smart’ gap.
- Do we have the **relevant laws that protect** (shareholders, policyholders and key stakeholders) **and promote** the deployment of ICT in the business of insurance in the sub region?
- Are the operations of Regulators in the sub region **in alignment with modern technological advances**? Are they **facilitating or frustrating** the deployment of modern technological tools and systems in the development of the insurance industries in their respective countries?

Rules of Technology

- Insurance companies must cautiously understand their businesses first before venturing into the full deployment of ICT in their operations. This caution is reiterated by one of the technological giants of our time – **Bill Gates** when he said:

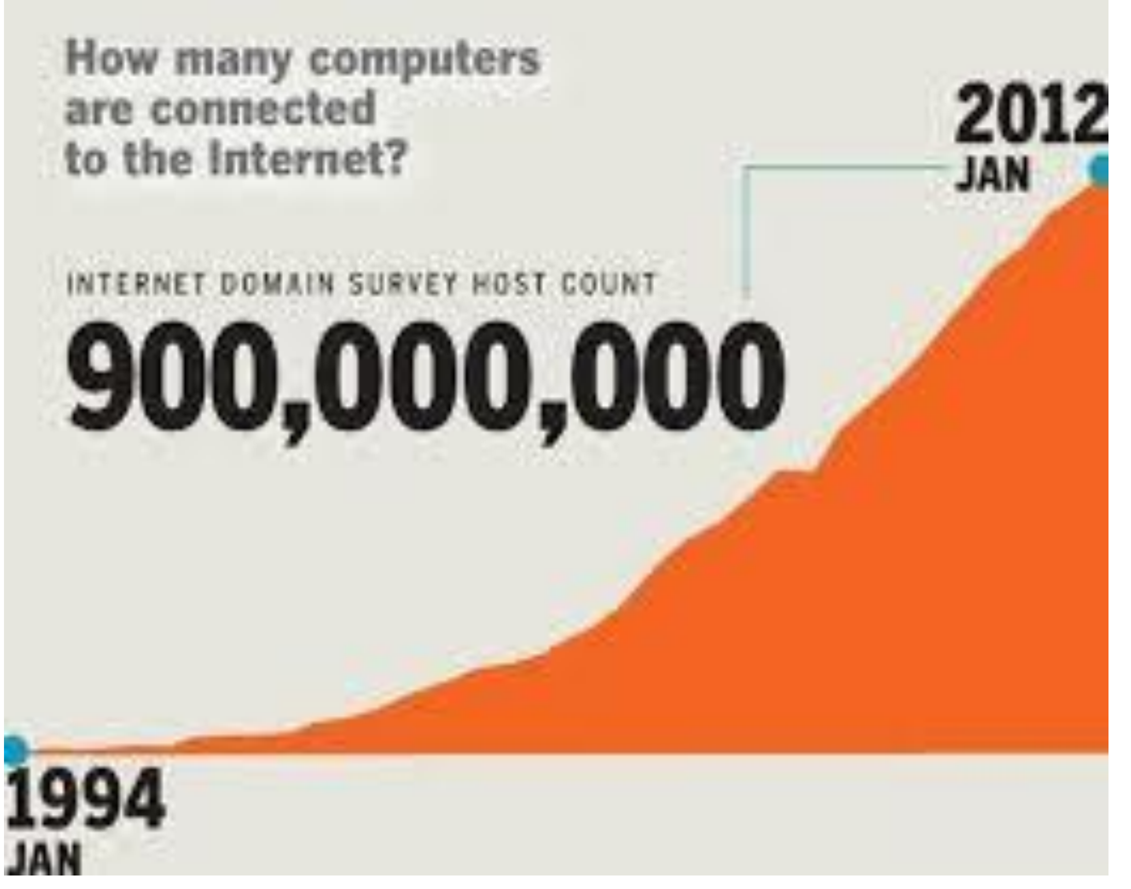
“The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency”.

- Thus, insurance companies and businesses must as a matter of importance do a lot of self-evaluation of their key operational areas to identify their efficiency level before making substantial investment into ICT.

Globalisation and Insurance

- **It is predicted that** the amount of data flowing around the internet will reach 1.3 billion terabytes by 2016 (from around 240 Exabytes in 2010 - Cisco Visual Networking Index, updated estimate).

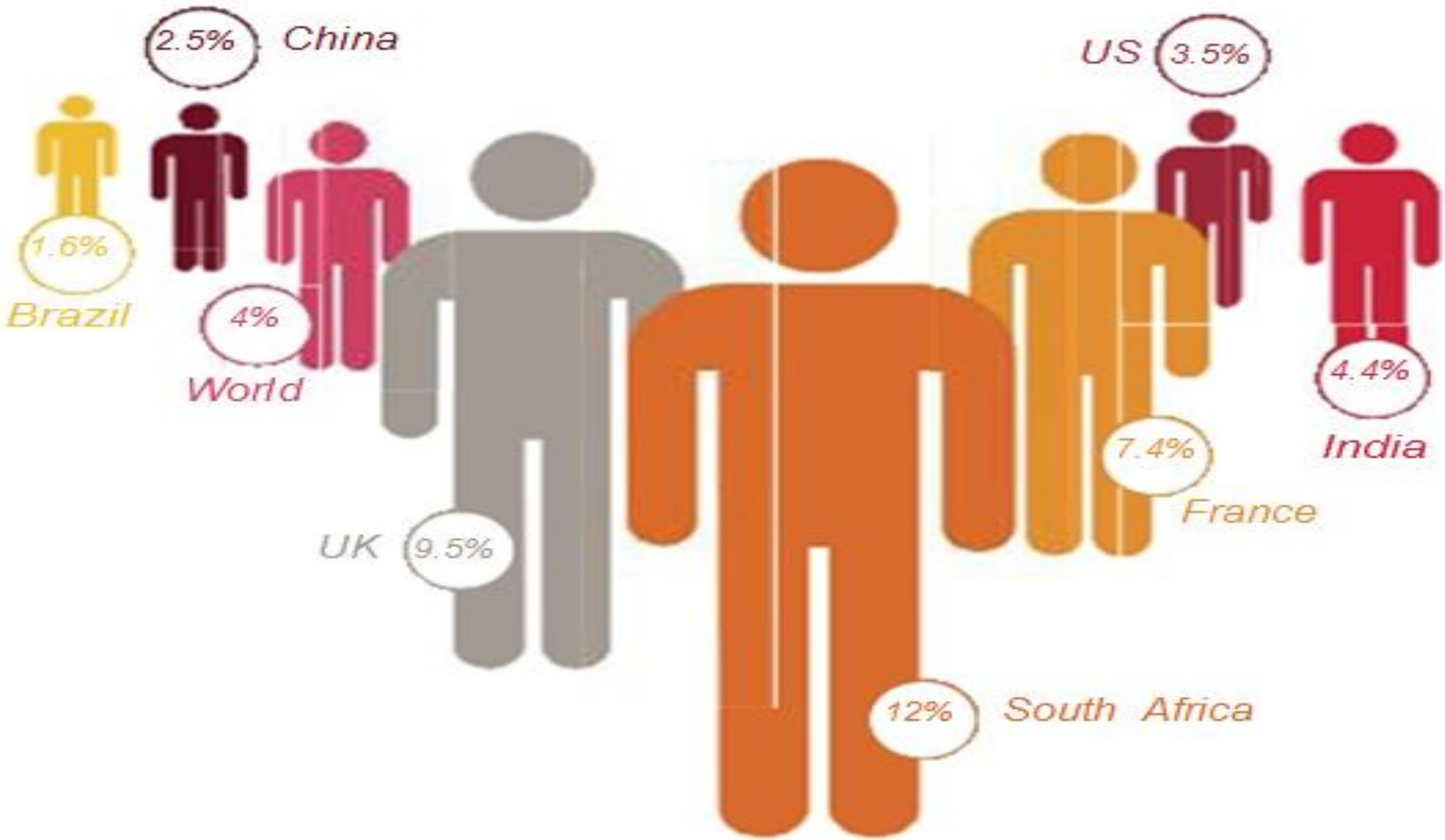
- **Advanced analytical techniques** would allow businesses to turn this goldmine of digital information into a complete picture of how individual customers behave, what they expect and the risks they present.



What is the implication of this unique global phenomenon on Insurance Business especially in West Africa?

- **The OUTLOOK : The Internet will be the market and the market will be the internet. A business outside the internet cannot compete and may not survive**

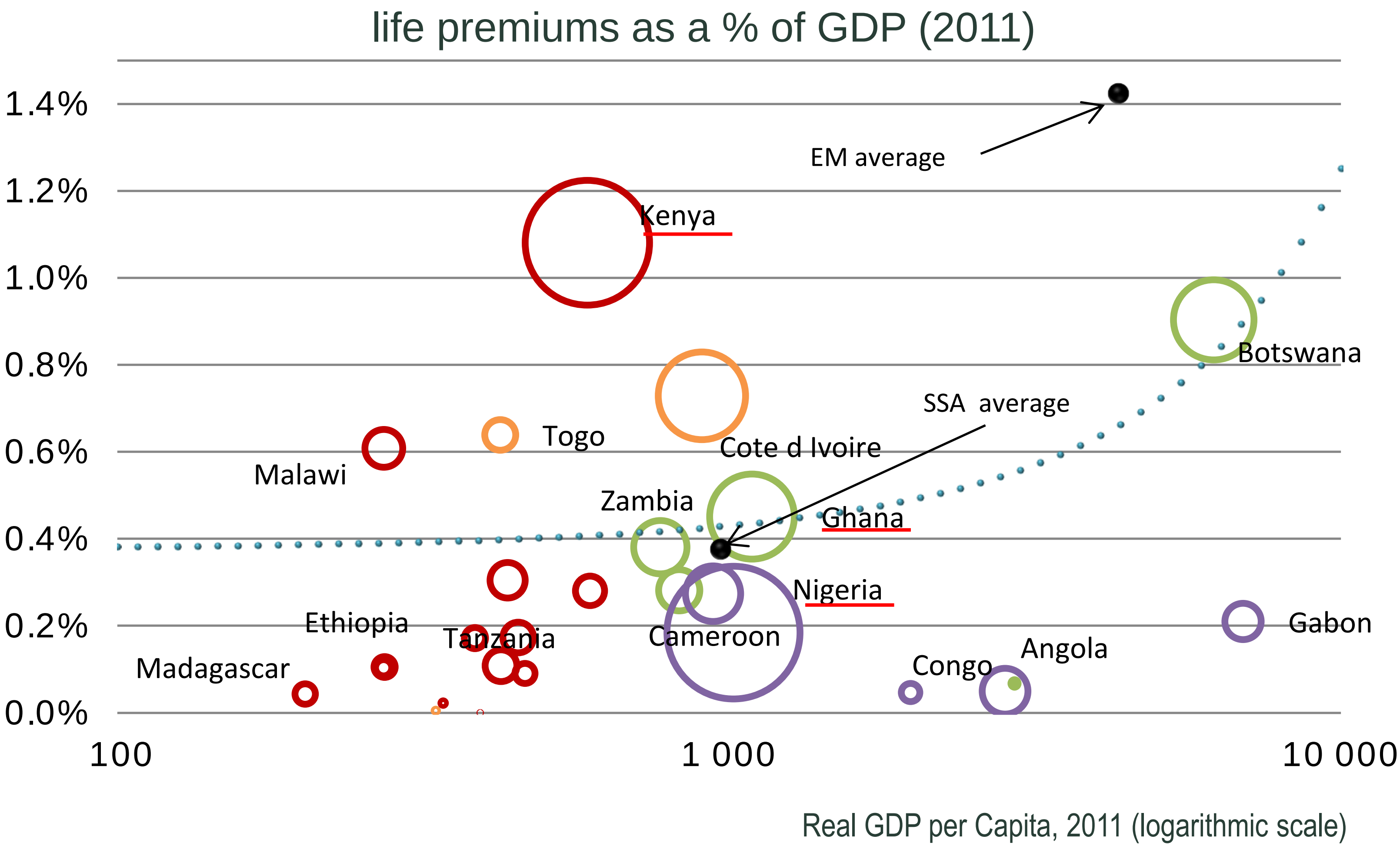
GLOBAL INSURANCE PENETRATION



Source: Swiss Re Report, 2012

The West African Situation

Setting the Scene → Low penetration remains the problem



*Source: Swiss Re Economic Research and Consulting

[1] EM = Emerging Market

Setting the Scene → Technology, Penetration & Regulation (1)

- West Africa, like other emerging markets in Africa and across the world, is enjoying faster economic growth than its developed counterparts, and personal income levels are rising, especially among urban breadwinners.
- Yet insurance penetration in within the Sub Saharan Africa remains pitifully low, largely because the lower cost insurance needs of the emerging lower-middle classes cannot be met by traditional distribution channels, especially traditional intermediaries who have little incentive to sell high volumes of policies with lower premiums. Access to financial services among the growing urban classes in the region remains very limited and continues to pose a major barrier to social stability and economic growth.
- However, the Sub region is also characterized by growing banking penetration rates, and high mobile phone take-up, along with the increasing use of databases and technology.
- Non-traditional distribution methods such as bancassurance, telcassurance and micro-insurance can be better leveraged by deploying cost-effective new channels and technologies such as databases, CRM, mobile phone, Internet & TV to reach more people and meet their low cost simple protection needs.

Setting the Scene → Technology, Penetration & Regulation (2)

The **Main Obstacles** to better insurance penetration in African markets:

1. **Expensive Distribution Strategies** → Manual face-to-face vs. tele/ digital
2. **Under-exploited Partnerships with Banks** → insurer-branded vs. bank-branded
3. **Difficult-to-understand Products** → complex vs. simple
4. **Out-of-tune regulatory requirements for Signatures** → wet signatures vs. electronic methods

How can anything be done about this?

Setting the Scene → Technology, Penetration & Regulation (3)

How can electronic signature improve penetration?

- Electronic signature methods can be used as the binding contracting mechanism with consumers, in line with recent developments in leading African markets such as Kenya where mobile phone penetration is growing.
- For example Tele-Bancassurance stores electronic voice-recordings of offer and acceptance on secure off-site servers as evidence of contract.
- Such electronic signatures, as opposed to paper-based 'wet signatures', reduces distribution costs whilst still protecting the consumer, and therefore allows for greater access and financial inclusion for lower-income earners.

Will consumers still be protected?

International Best Practice Standards in Consumer Protection are:

1. Issuing policy documents to customer within 7 days of sale
2. Cool-off period of 30 days with full premium refund if cancellation
3. Storage of voice-recorded 'e-signatures' for duration of policy life & readily accessible to consumer and insurer.

Setting the Scene → Technology, Penetration & Regulation (4)

What is the right Expertise?

- Alternative Distribution Channel expertise will be key to cost-effectively reaching large numbers of un-insured or under-insured individuals in large numbers and thereby dramatically improve insurance penetration levels
- Bancassurance & Telcassurance strategies recognises that partnership expertise is critical to sustain long-term profitable relationships
- Reinsurers with specialised risk management skills and innovative financing models for alternative distribution projects can add immense value
- Technology that is purpose-built for administration, marketing, sales and can be hosted on the cloud can enable and revitalise growth

How to access Distribution, Product & Technological Expertise?

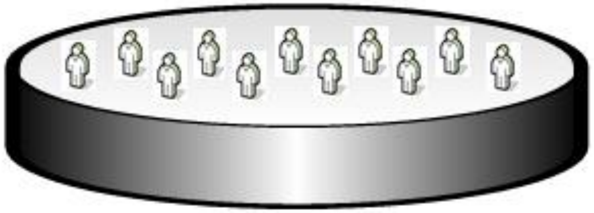
- The industry needs to recognise where its strengths lie and where it lacks the necessary product development and distribution skills
- There may often be a case to partner with the right distribution experts, reinsurers and technology providers.

3

Technological DRIVERS

Driver # 1 → Database Technology

- Well maintained electronic databases of customer information have become **marketing goldmines**
- Especially useful for **Bancassurance** & Telcassurance
- But they are **usually not** managed, mined or exploited optimally
- **Data warehouses** should allow easy query, update, single customer view user interfaces
- Databases are a **highly valuable** source of insurance customer leads and rich information that can be used to sell more insurance!



Driver # 2 → Marketing Technology

- Marketing Technology can provide **new sources of leads** for sales
- Lead generation via **electronic & digital** marketing channels is key
- **Reduces dependence** on agents and brokers for new sales leads
- Examples include:
  - Purpose-built **Websites**
  - **Search Engine** Optimisation
  - Paid **Search** Media
  - **Social** Media
  - **Mobi-Sites**
  - Mobi-Apps

Driver # 3 → Sales Management Technology

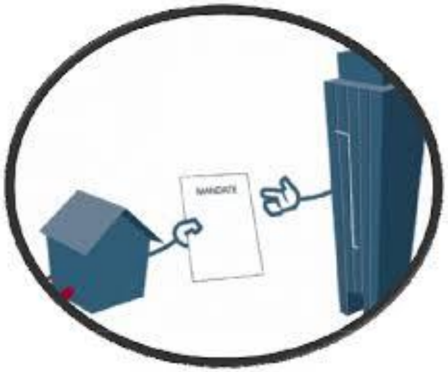
- Once leads have been generated the **sales conversion process** needs to be managed and measured
- Leads are a highly valuable asset that should be controlled using **Leads Management Systems**
- **Examples** of leads management systems include:
  - Operational CRM systems
  - Telesales Predictive Dialers
  - Campaign Management Systems
  - Mobi-Diaries for Field-agents

Driver # 4 → <u>Contracting</u>Technology

- **Paper-based** contracting is inconvenient & cost-prohibitive
- **Mobile** phone growth has ushered in newly accepted forms of contracting with people
- **Electronic** signatures are widely accepted internationally as a viable means of authorising a policy contract & ongoing premium deduction
- **“Wet” signatures** involving ink and paper-based contracting are no longer the only acceptable forms
- **“Dry” or electronic** contracting such as digital signatures and electronic voice-recordings are increasingly acceptable in most countries

Driver # 5 → Collection Technology

- Technology improves the **cost & reliability** of collecting premiums
- **Automated** premium collection is in line with international best practice
- **Bank Direct Debit** using upfront standing instructions is far more reliable than manual collection
- But it relies on people **having a bank account** and national clearing houses to process DDI's with multiple banks
- **Mobile Money** payment methods such as M-Pesa offer an increasingly viable alternative for un-banked people, especially if it allows for upfront standing instructions or mandates

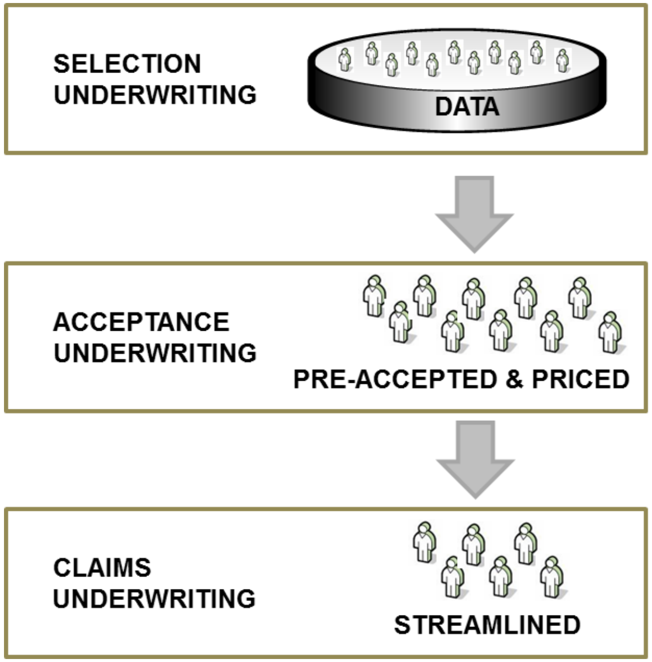


Driver # 6 → Administration Technology

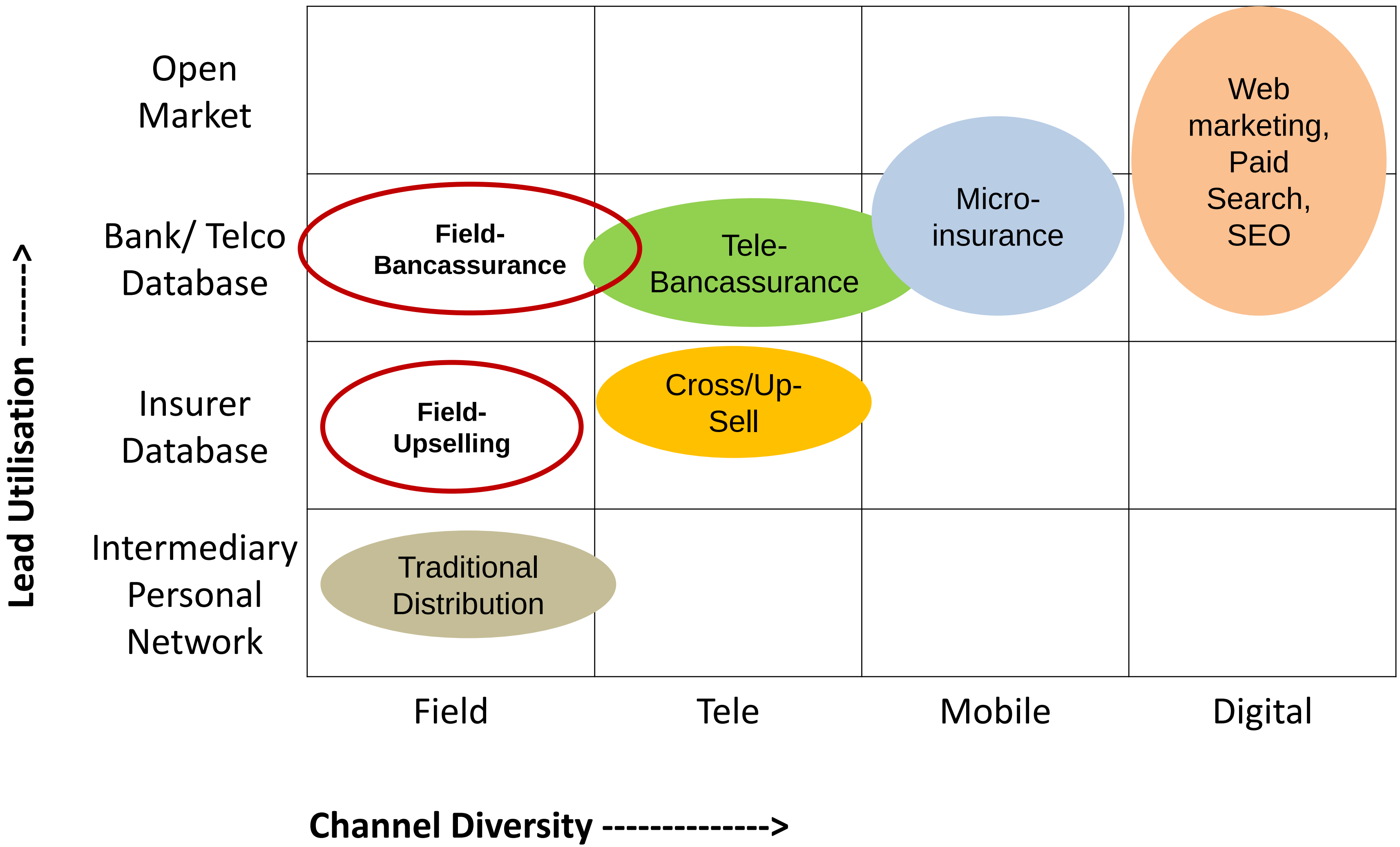
- **Cloud-computing** is emerging as a game-changer!
- Insurers are afforded easier access to **Best-of-Breed Systems**
- Offering **Scalability** & Flexibility
- No need for **upfront investment**
- Insurers can **pay per policy or per transaction**
- Benefit from **Economies of Scale**
- Provides **Single customer view**
- Enables better **CRM** for upsell and managing policyholder lifetime value

Driver # 7 → Underwriting Technology

- **Selection Underwriting** using good data & technology can remove the need for Acceptance Underwriting and greatly streamline Claims Underwriting
- **Predictive Underwriting** technology can streamline the process of customer acquisition and product pricing by predicting the future risk behaviour of a customer using data at an aggregated level
- Predictive underwriting technology can help lead to the **right decisions regarding acceptance and pricing**



Impact of Drivers → Better use of leads & channels



4

Technological DEVELOPMENTS
(East Africa)

- Technological **Enablers**: M-Pesa & Equity Bank
- Technological **Innovations**: Kilimo Salama & Salamasure

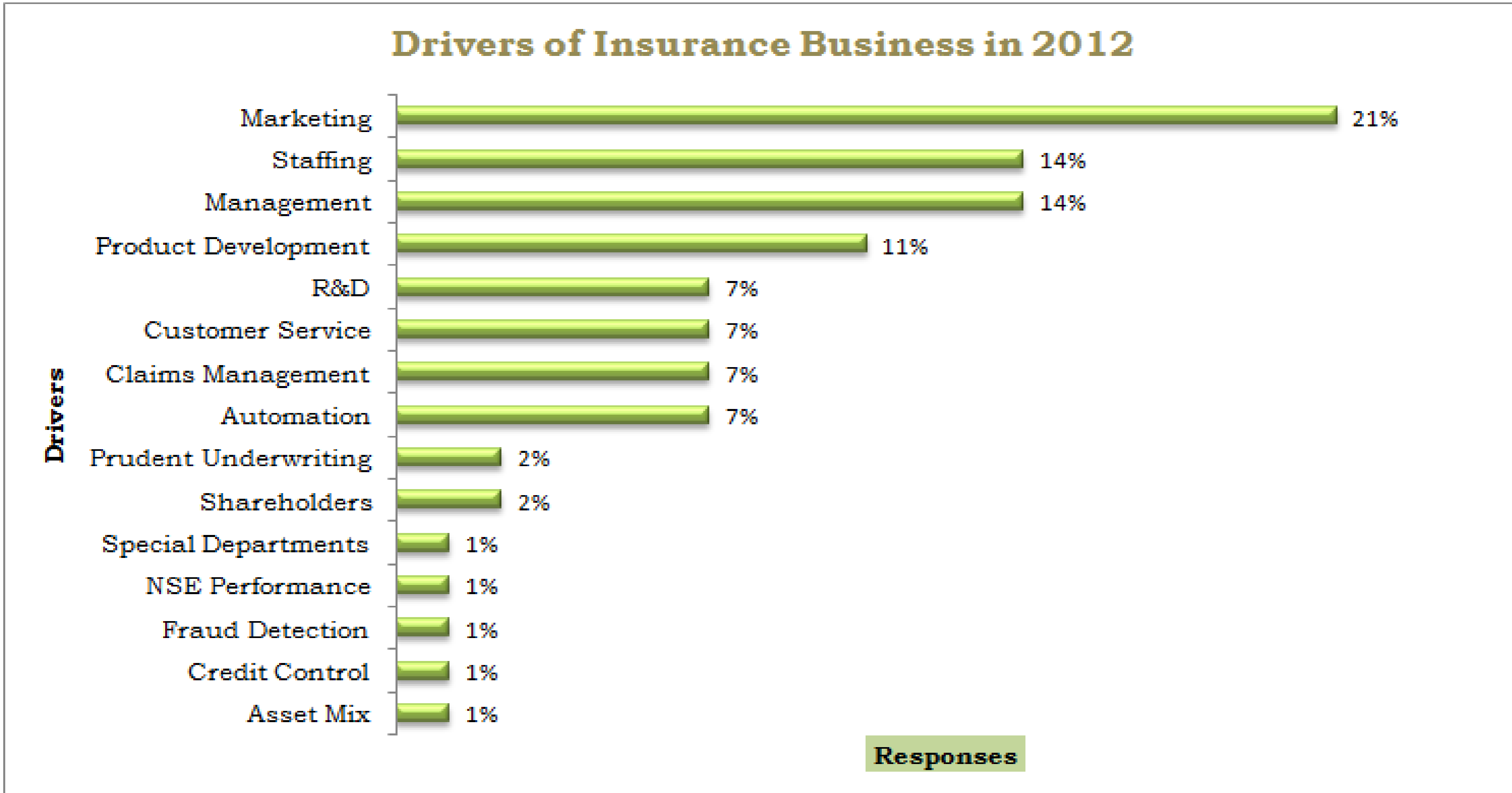
AKI'S CONTRIBUTION TO THE DEVELOPMENT OF INSURANCE IN KENYA

In 2011, the Association of Kenyan Insurers (AKI) released a strategic plan for the industry for the 2011-15 periods. AKI hopes that by the end of this period, premiums will rise to KSh200bn, up from KSh90bn in 2011. This implies an average growth rate of roughly 22% p.a., which is well above the growth rate of 16% p.a. over the previous five years.

It listed the following methods through which this could be achieved:

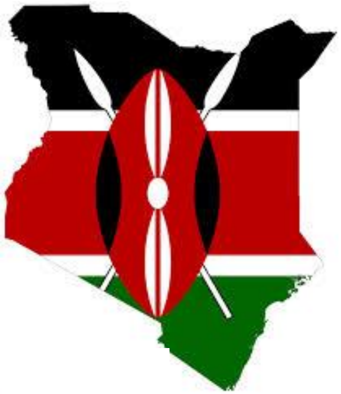
- Simplifying products and creating innovative new ones;
- Customer education;
- **Using social media and technology to reach the untapped lower end of the market;**
- Promoting the image of insurers (currently, there is a lack of trust in insurers);
- Improving the functioning of member companies; and
- Modernizing the Insurance Act.

A research work carried out by the Insurance Regulatory Authority of Kenya in 2013 which is titled 2013 KENYA INSURANCE INDUSTRY OUTLOOK and authored by VICTOR MOSE AND ROBERT KULOBA of the Policy Research and Development Division identified the following as drivers of Insurance Business in Kenya in 2012



Enablers → Overview of Kenyan market

- Population **43 million**
- Only 11% in **formal** employment (2.5m)
- 39% in **informal** businesses – SME's
- 39% in **agricultural** sector
- Barclays, StanChart, Standard Bank and Kencel were **targeting the 11%**
- **Safaricom & Equity** decided to focus on the other 89% …



Enabler #1 → <u>Safaricom (M-PESA)</u>

- **Kencel** the 1st private network focused on the corporate market first
- Safaricom chose the consumer market and today has **70% of all lines** and 90% of all billings
- Safaricom started **M-Pesa** which allows users to deposit, withdraw, and transfer money with a mobile device
- M-Pesa is the most developed mobile payment system **in the world** with 21 mn users and USD 3 bn in deposits
- M-Pesa transfers more money **in a day** than Western Union in a year
- **M-Shwari** launched as a mobile savings account that allows users to borrow money - 1 mn accounts opened in 1st 6 months

IMPACT: Currently over 31 million mobile phone lines (78%)

(only 500,000 when Safaricom was founded)

Enabler # 2 → Equity Bank

- In 2001 **< 1 m** Kenyans with bank accounts
- Equity Bank was initially a simple **building society** offering homeloans
- Grew by focusing on **Micro-finance** to lower income earners
- Hired top talent & **Management**
- Deployed latest **Technology**
- **Expanded offering** to savings and current accounts and all income levels
- Now the **largest bank** in Kenya
- Over **7.5 million** accountholders
- Galvanised the banking industry

EQUITY Bank • Your Listening, Caring Partner

IMPACT: Currently over 40% of Kenyans now have a bank account (only 10% when Equity Bank was founded)

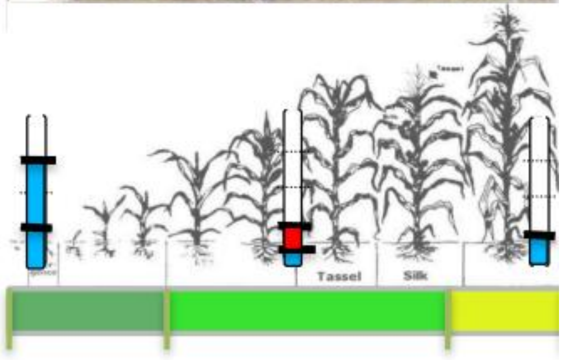
Impact on Kenyan Insurance Industry → Still a long way to go

- Insurance **Penetration** around 2.5%
- Insured population **grew from 5% to 7%**
- Compared with **40% for banks**
- And over **78% for Mobile phones**
- But there is no Safaricom or Equity Bank **yet** for the Insurance industry
- Nor has a **major culturally-relevant product** or insurance need been exploited yet eg. funeral in SA
- But these enablers have positively changed the **environment** and the way of **thinking**…

Innovation # 1 → Kilimo Salama

Innovation # 1 → Kilimo Salama

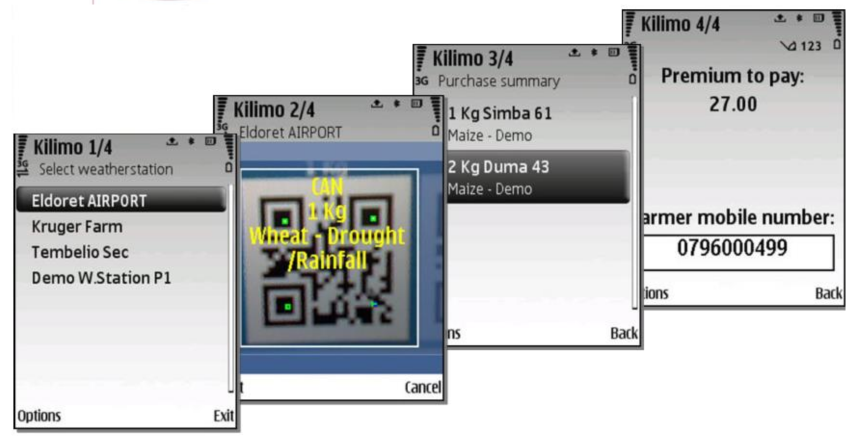
- Weather-index insurance for small scale farmers
- Provided by UAP Insurance (developed with Swiss Re)
- Weather station measures conditions
- No farm visits = low admin costs
- If weather station shows loss, then all insured farmers are paid, irrespective of on-farm loss
- Quick disbursement of payouts



Example Agronomic model

Innovation # 1 → Kilimo Salama

- Agrovets have the application on their Mobile phone
- Farmer registered via 4-step process
- Policy is automatically created on the server
- Farmer receives an instant confirmation of cover via SMS
- Automated decisions on payouts
  - To all farmers under same weather station
  - Directly to farmers mobile phone (M-Pesa)



Innovation # 1 → Kilimo Salama

- Results:
  - 11,000 farmers insured in 2010
  - 23,000 in 2011
  - 45,000 in 2012
  - Premiums of over Kes 70 million (USD 700,000) in 2011

Innovation #2 → Salamasure

- SALAMASURE is a mobile phone driven Personal Accident Insurance Cover
- Provided by UAP Insurance in Kenya
- Client takes up policy via mobile with no forms to sign
- Clients are identified by their ID, Mobile number & a unique Policy number
- Monthly premium payment method authorised via mobile phone
- Winner: African Distribution Innovator of the Year Award (at the 2nd African Distribution & Bancassurance Conference in 2012)

Innovation #2 → Salamasure

- To access cover via mobile phone using USSD:
  - Dial *827#
  - View cover options
  - Register & purchase
  - Report a claim
  - View account
- Client receives confirmation of cover via SMS & is requested to register a beneficiary
- Client can change beneficiary & other details entirely via the phone

Innovation #2 → Salamasure

- Results:
  - 3,000 paid-up in 1st 4 months of pilot
  - 1,100 active month on month
  - Successful, but lessons have been learnt…
    - Mobi-sites or Mobi-apps will be built to replace USSD which is cumbersome
    - Payment can be based on standing instruction or auto-renewal to avoid this extra step every month
    - Promote greater adoption of the channel with loyalty program or other products eg. health insurance

CONCLUSION

- A KPMG Report on Financial Services in Africa explained how the banking sector has used technology to increase financial inclusion in Africa in the following statement:

"The advent of modern technology and other innovations have successfully enabled a handful of pioneers to provide banking services to a far wider income customer base than ever before. This has been achieved via the roll out of new alternatives to traditional banking made possible by modern mobile banking services, financial engineering and innovative strategies".

- **The Insurance Industry cannot sit on the fence and pray for insurance penetration miracle to happen.**

We Need to Act Now!!!

CONCLUSION

PWC believed that there are **five key attributes** that will mark out the businesses that will be able to compete and succeed from those that won't:

- Speed of decision making and agility to respond
- Clear insights into where in the complex new value chain they are best able to compete
- **Using the latest developments in technology to enhance customer profiling, reduce costs and improve customer experience**
- **Using new technology to industrialise routine underwriting, sharpen their analytical capabilities and release talent to focus on high-growth markets and deal with more complex risks**
- And to make sure they get the benefit from this, being able to communicate value clearly and convincingly to analysts and investors.

The Insurance Industry in West Africa must wake up to the new realities and opportunities created by modern technological advances to enable us increase penetration – it is a must!!!!!!

CONCLUSION

Jack Welsh:

if the rate of change outside you or your organization is greater than the rate of change inside you or your organization, then the end is in sight.

Acknowledgements:

Bruce Sahd, MD
CaseJohnson Financial Services (Pty) Ltd
Unit 20-304
Waverley Business Park, Mowbray
Cape Town
South Africa

bruce@casejohnson.com

The ICT and Research Department of StarLife Assurance Company Limited,
The Head of ICT, CAL Bank, Ghana, Mr. Tamakloe


obrigado
Dank U
Merci
mahalo
Köszi
спасибо
Grazie
Thank you
mauruuru
Takk
Gracias
Děkuju
danke
Kiitos