

LIFE ASSURANCE PRACTICE IN KENYA

BY

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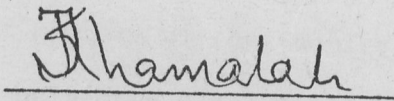
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DECLARATION

THIS MANAGEMENT PROJECT IS MY OWN ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR A DEGREE IN ANY OTHER UNIVERSITY.

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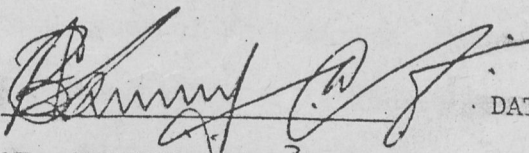
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ABSTRACT

This research project was embarked on to redress the apparent lack of awareness, in most quarters, of what life assurance is. Its main objective, therefore, was to investigate into the operations of, and document, the life assurance industry in Kenya today.

The primary information for the research was collected, using the questionnaire and interview methods, from executives in the life departments of the 9 companies sampled from a total population of 19 companies currently writing life assurance in Kenya. Whereas the findings cannot categorically be said to be the practices obtaining in Kenya, they can, however, be justifiably used as pointers and suggestions about the practice of life assurance in this country.

Secondary information gathered shows that the life assurance industry in Kenya consists of 19 insurance companies - none of which is a pure life office. Except for two companies which operate "closed funds", all the companies write new business. On the market too are numerous agents representing these insurance companies. About 26 brokers are licensed to operate, but these do minimal life business except in the group and pensions lines. There are two reassurers conducting business in the country. They, however, handle only 30 per cent of this country's reinsurance business - the rest is placed on foreign markets.

The findings show that the whole range of life assurances (group life, individual life, credit life, industrial life, annuities, endowments, and pensions) are offered by the insurance companies to their clients. Group, individual life, and pensions

seem to be the major lines. Industrial life is written by only one company in the country, whereas credit life is offered by only a few companies. Other services, including policy loans, mortgage loans, participation in profits, and insurance advice are offered to clients.

The findings also show that before the assurers underwrite a risk, they have to get material information about the proposer. This information is obtained by use of proposal forms, agent's report and the medical examiner's report. Several underwriting factors are used in the selection of the risks and these include occupation, interests, family medical history and previous assurance history, among many others. These factors are also used in computing the premiums to be charged.

The Government controls the industry through the Kenya Reinsurance Corporation and the Insurance Companies Act. This situation will change with the establishment of the Commissioner of Insurance's office when the Insurance Act, 1984, comes into operation. The Government has also participated actively in the industry through the setting up of such state Corporations as Kenya National Assurance, Minet-ICDC and Kenya Reinsurance Corporation.

Finally, the findings of this study suggest that the chief problem facing the industry is the lack of knowledge among most Kenyans about life assurance. Recommendations to correct this situation include the introduction of insurance as a subject on the curriculum of schools and colleges; and a more spirited effort, by both the Government and Insurance Companies, to publicize insurance in the country.

CHAPTER 1INTRODUCTION1.1 BACKGROUND

Security and protection against losses or contingencies, based on the principle of mutual co-operation, have existed in most societies since the early days of civilization. Various forms of insurance have evolved over time to serve as some of the principal means of providing such protection and security. Chief among these forms of insurance is life assurance which takes care of risks associated with human life.

Life assurance, as it is known today, is not an exactly recent development. It has been in existence in Britain for more than four hundred years.¹ In Kenya, however, it is a fairly new phenomenon, having been around for just about half a century.² In spite of this, life assurance in Kenya, as elsewhere in the world,³ continues to play an increasingly prominent role in the economic and social system.

A few figures vouch for this. In 1981, there were 169,966 life assurance policies and 18,280 annuities in

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1. Raynes, H. E. A History of British Insurance, London, Sir Isaac Pitman & Sons Ltd., 1964, pp 113
 2. Khamala, J. N. The Origin and Growth of Modern Insurance in Kenya, Nairobi University, Unpublished Independent Research Paper, 1985, pp 6
 3. Dinsdale, W. A. Elements of Insurance, London, Sir Isaac Pitman & Sons Ltd., 1973, pp vii

force in Kenya with a total sum assured of Kf2,041.682M. Were they to be paid off, they would have made up about 69.41 per cent of the Gross National Product. Life assurance assets in the same year totalled Kf107.113M. Loans and advances by life assurance companies to both the public and private sectors stood at Kf19.403M and total life income was in excess of Kf27.784M.⁴ This performance, in an economy with a Gross National Product of Kf2,941.450M, was not a small achievement.

As its name implies, life assurance is insurance on the life of a person, and, unlike in other forms of insurance, the event insured against in life assurance (death and superannuation) is bound to happen, hence the term assurance. Because of this, life assurance contracts tend to be more definite and longer-term than in other forms of insurance. These unique characteristics make life assurance ideal for the fulfilment of various other roles in society.

To begin with the vast aggregation of small sums from the numerous premium collections provides a fund that is an important source of finance for not only the private sector but also the public sector. Indeed, whenever the Government floats any stocks or bonds, it has also to look to insurance companies as some of the principal purchasers of these financial instruments.⁵

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4. Central Bureau of Statistics, Statistical Abstract, 1984, pp 164-8
 5. As per D. Ndegwa, then Governor of the Central Bank of Kenya, in an address to the Sixth African Insurance Conference held in Nairobi in June 1978.

It is the life fund of these insurance companies that is largely utilized in such purchases.

Life assurance provides protection against contingencies to human life and one's ability to earn income - the most important assets any individual or nation can have.⁶ It is also a means of creating an estate for one's dependants. There is no other legal method, apart from life assurance, whereby one can establish an immediate estate.⁷

Proceeds from life policies can be used as an estate clearance fund, income for the bereaved family, disability income, medical expenses, and for the protection of a business in which the deceased was a partner or key-man.⁸ Life assurance also enhances the credit-worthiness of one,⁹ and it has tax implications that are favourable to the policyholder.¹⁰

Together with other institutions like savings banks and co-operative savings and credit societies, life assurance promotes the attribute of thrift among individuals - essential for the continued development of any nation. This savings element is more stressed in life assurance than other savings institutions which normally allow the depositor to withdraw all or nearly all the funds after giving notice, with the result that the resolution to save over a long period may be broken when the depositor for one reason or another finds it necessary to withdraw the amount deposited.¹¹

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6. Schultz, T. W. "Investment in Human Capital" The American Economic Review, Vol. L1 No. 1 (March 1961 pp 2-3)
 7. Vaughan, E. Fundamentals of Risk and Insurance, New York, John Wiley & Sons Ltd., 1982, pp 179
 8. Gregg, D. W. and Lucas, V. B. Life and Health Insurance Handbook, Homewood Illinois, Richard D. Irwin, Inc., 1973, pp 27-8
 9. Ibid
 10. The Income Tax Act, S.33 of Cap 470 of the Laws of Kenya
 11. Huebner, S.S. and Black, K. Life Insurance, Englewood Cliffs, New Jersey, Prentice-Hall Inc., 1982, pp 34-7

In addition, life assurance promotes peace of mind and freedom from worry among policyholders.¹² They are confident that should "anything" happen to them, their dependants will be well taken care of. This enables people to spend their resources (energy, time, money, minds, etc.) elsewhere instead of trying to "put something by for the rainy day."

Finally, life assurance provides employment opportunities, and the resultant benefits, to hundreds of people.

The foregoing discussion, although not exhaustive, however, clearly highlights the advantages of life assurance not only to the policyholder but also to the community as a whole. Indeed, the value of life assurance as an agency for increasing the individual's sense of responsibility, and for relieving the community of much needless expense in supporting members of destitute families, has been recognized for years by governments of all civilized countries.¹³ State-run insurance programmes and pension schemes¹⁴ are an indication of this recognition.

All the functions and benefits of life assurance are dependent upon one important assumption - that as and when the assured event occurs, the life office (assurer) will

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12. Ibid
 13. Huebner, S. S. and Black, K. Op Cit pp 38
 14. Examples include the National Social Security Fund (NSSF) and the National Hospital Insurance Fund (NHIF) in Kenya today.

honour its obligations. Some indications, however, show that this is not always the case and thus some policyholders end up being disillusioned. This sets in motion a chain of reactions that foster mistrust, unfavourable word of mouth, and misunderstanding among the general public about what life assurance in particular, and insurance in general, entails.

1.2 STATEMENT OF THE PROBLEM

To most people in Kenya today, the term life assurance brings to mind impressions of fast-talking salesmen bent on convincing one into buying an insurance policy against one's better judgement; a phenomenon that keeps "eating" into one's income through premium payments; tricky insurance companies that do not honour their obligations when one lodges a claim; or one of a whole range of other unfavourable impressions usually brought about by some unfortunate past dealings with an insurance company, or negative word of mouth.

It can hardly be disputed that the society stands to benefit from increased usage of life assurance. But as things are today the vast majority of people in Kenya neither know and understand what life assurance is, nor appreciate its social and economic importance. It has been postulated that the semi-literate nature of the general populace of Kenya coupled with poor marketing of life assurance are to blame for this state of affairs. It has been argued that there is a general lack of exposure of members of the public to life assurance. The problem that is being investigated in this research project therefore is:

"What life assurance practices exist in Kenya today?"

This problem generates five subquestions:-

1. What constitutes the life assurance industry in Kenya?
2. What services are offered by the industry to clients?
3. How are these services marketed?
4. What are the unresolved problems in the industry and what can be done about them? and
5. What role has the Government played in life assurance in Kenya?

1.3 SCOPE OF THE PROBLEM

This study is basically an investigation into, and documentation of current life assurance practices in Kenya. No historical analysis of the said practices has been attempted. Instead specific areas that have been investigated include:-

1. The composition of the life assurance industry,
2. Types of assurances and other services offered to members of the public
3. Factors determining premiums charged;
4. Marketing of life assurance
5. Underwriting considerations
6. Loss settlement considerations; and
7. Reassurance.

This study was confined to insurance companies underwriting life business in Kenya as at January 1st, 1985 as the population of interest. For the purposes of this study, the term "Life Assurance" was taken to

mean industrial life, group life, individual life, endowments and annuities.

1.4 OBJECTIVES AND IMPORTANCE OF THE STUDY

The main objective of this study is to investigate into the operations of, and document, the life assurance industry in Kenya today.

In spite of playing an important financial role in the economy and featuring prominently in recently enacted legislations,¹⁵ very little is known and has been written about life assurance practices in Kenya. It is with the aim of redressing this situation that this study has been attempted. The findings of this study are expected to not only help in filling part of the void that exists in this country as regards research and publications on insurance, but also to stimulate discussion in the academic field and provide a fertile ground upon which further research could be based.

Life assurance companies are expected to find this study useful in its suggestions about those areas of their operations that do not live up to expectations. The Government's legislative body and the envisaged Office of the Commissioner of Insurance will find the results of this study useful in its suggestions as far as participation, regulation and control of the life assurance industry is concerned.

The findings of this study are also expected to help put life assurance in proper perspective in the minds of the members of the public. The study will provide a much

15. The Insurance Act, 1984 (yet to commence)

needed exposure to life assurance that members of the public have hitherto missed. It will help policyholders and potential policyholders to know what exactly to expect in their dealings with the life assurance industry in this country.

1.5 REVIEW OF RELATED RESEARCH

The past fifty years have witnessed a lot being written on life assurance the world over. Surprisingly very little research has been conducted in this field not only in Kenya, but in Africa as a whole. Guya (1976) conducted a study on the life expectancy in use in actuarial tables in Kenya. Its findings revealed this country's dire need for actuaries and construction of life tables based on actual mortality experiences in Kenya. In the absence of these, life assurance companies have been left with no alternative but to use adjusted foreign (British and American) mortality experience in calculating premium rates to be applied in this country.

Several research studies, in the process of investigating into the much wider subject of insurance, have inevitably touched on one aspect or another of life assurance. Byamugisha (1973) researched and wrote on insurance law in East Africa. Tsuma (1975) studied insurable interest and the principle of indemnity law and practice. Irukwu (1977) conducted a study on insurance management in Africa. Although Irukwu's study appears to be methodologically sound, his findings relate more to Nigeria and West Africa than to other parts of Africa. Ayugi (1980) surveyed the doctrines of indemnity and subrogation in insurance contracts, and, like most of the studies mentioned

above, the findings of his study dealt with life assurance very superficially.

Many other papers and research studies have been written on several aspects of insurance. Very few of them, however, have touched on life assurance even in passing. Indeed, a diligent search for the available research works has revealed none that has been conducted on life assurance practices be it in this, or any other African, country.

1.6

DEFINITION OF SOME OF THE TERMS USED IN THIS PAPER

Unless stated otherwise, the following terms, as used in this paper, will carry the corresponding meanings assigned hereunder.

1.

Assurance:

Insurance effected on the life of a person or a group of persons. The assured, then, is the person taking out the assurance; the assurer is the company providing the assurance protection; and the sum assured will refer to the face amount or face value of the policy, that is, the amount the assurer promises to pay upon the happening of the assured contingency. The sum assured spells out the limit of the assurer's liability under the policy.

2.

Cash Value, Cash Surrender Value, or Surrender Value:

The value the policy acquires after being in force for two or three years. It is the

amount the assured gets if he elects to surrender the policy. It is actuarially established, but usually, it will be less than the total amount of premiums paid by the assured.

3. Insurance:

The protection given to an individual or organization against monetary losses suffered, arising out of unforeseen circumstances.¹⁶ It is a social device which combines the risks of individuals into a group, using funds contributed by members of the group to pay for losses.¹⁷

4. Mature:

A policy is mature when the face amount of the policy is payable. Thus a 20-Year Endowment is mature at the end of 20 years, the endowment at age 65 is mature at that age, and a Whole life policy is mature at age 100.¹⁸

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16. The Standard, Wednesday 25, April 1984, pp 17
 17. Waweru, M. "Risk and Insurance" B. Com 11 class handout, 1980, pp 51
 18. Vaughan, pp 207

5. Operations: Used synonymously with practices to mean the doing or performing of practical assurance work,¹⁹ that is, the practical application of assurance principles in the day to day conduct of life assurance business involving proposals, underwriting, reinsurance and general transaction of life assurance.
6. Paid-Up-Policy: A policy is paid up when there are no further premiums due on it, and the reserve is sufficient, together with the interest on it, to pay all future claims under the policy.²⁰
7. Peril: The event that causes a loss, for example, death. It is a contingency or fortuitous event, which may be covered or excluded by a policy of assurance.²¹
8. Policy: The document that evidences the assurance agreement, or contract, between the assured and the assurer.
9. Reassurance: This is assurance for assurers. It is a device whereby an assurance company may avoid a catastrophic hazard in the operation of the assurance mechanism by ceding or transferring part of the risk to a reinsurer.

19. Adapted from Webster's Third New International Dictionary, 1976 Edition

20. Vaughan, Ibid

21. Dinsdale, Op Cit pp 223

10. Rider: A document which amends the policy. It may increase or decrease benefits, waive a condition or coverage, or in any other way amend the original contract.
11. Risk: Used in the abstract to indicate a condition of the real world in which there is a possibility of loss. From the assurer's point of view, it is taken to mean the person assured or the peril assured against.
12. Risk Management: A scientific approach to the problem of dealing with the pure risks that face an individual or organization in which insurance (and assurance) is viewed as simply one of the various approaches to dealing with such risks.
13. Underwrite: The process by which the assurance company determines whether or not and on what basis it will accept an application for insurance.

CHAPTER 2THEORETICAL FRAMEWORK AND LITERATURE REVIEW2.1 THE NATURE OF LIFE ASSURANCE2.1.1 ITS MEANING AND PURPOSE

Life assurance at the present time is a complex system inspite of being the most straightforward and simplest type of insurance.²² It has as its basis the payment by assurance offices and underwriters of specified sums of money (sums assured) upon the happening of contingencies upon human life in return for relatively small amounts of money received in the meantime, termed premiums.²³ These contingencies, or rather, risks that face the individual or family are numerous and varied, and they create untold miseries when they do occur. Excluding unemployment, the threats to an individual's or family's earning power are fourfold and they revolve around the bread-winner. They include (1) Premature death, (2) disability caused by disease or accident, (3) old age and forced retirement, and (4) living so long that one's financial assets are exhausted.²⁴ It is the primary purpose of life assurance to safeguard the individual or family against these misfortunes.

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22. Vaughan, E. J. Fundamentals of Risk and Insurance, New York, John Wiley & Sons, 1982, pp 179
23. New, L. J. Life Assurance from Proposal to Policy, London, Sir Isaac Pitman & Sons Ltd., 1968, pp 1
24. Dorfman, M. S. Introduction to Insurance, Englewood, Cliffs, New Jersey, Prentice-Hall Inc., 1982, pp 231

Most insurance texts point out, as the first principle of risk management, that the probability of a loss occurring or not occurring is less important than the financial burden it would impose.²⁵ It follows from this principle that people should protect against the most important risks first, and for the family unit, the most important risk is that of loss of income. Thus, well ordered insurance programmes begin with the protection of income. It is foolhardy to protect the property a person owns while neglecting to protect the asset that produces that property. The most important asset an individual has is the ability to earn income. This underlines the importance of life assurance as the starting point in insurance.

With this in mind, life assurance from the individual's point of view can be taken to mean a contract whereby, for a stipulated consideration (premium), one party (the assurer) agrees to pay the other (the assured or a beneficiary), a defined amount upon occurrence of death, disability, or other specified contingency. From the standpoint of the community, life assurance is a social device for making accumulations to meet uncertain losses resulting from premature death or disability, which is carried out by the transfer of the risks of many individuals to one person or a group of persons.²⁶ Thus, as Dawson puts it, "There is nothing more uncertain as life and nothing more certain than life assurance."²⁷

25. Vaughan, Op Cit, pp 179

26. Willet, A. H. The Economic Theory of Risk and Insurance, Philadelphia, University of Pennsylvania Press, 1951, pp 72

27. Dawson, M. M. The Business of Life Insurance, New York, A. S. Barnes, 1911, pp 4

The essence of life assurance, therefore, is to replace, for the assured, the uncertainty of loss resulting from the numerous perils that face him, with the certainty of receiving payment from the assurance office should loss occur to him.

2.1.2 THE UNDERLYING PRINCIPLES OF LIFE ASSURANCE

Like other insurance arrangements, life assurance is a risk-pooling plan - an economic device through which a risk is transferred from the individual to the group. But although all forms of insurance are alike in that they require for their successful operation a combination of many risks into a group, they are vitally different as regards the nature of the perils covered. In these, life is distinguished from the other forms of insurance by the fact that in the latter, the contingency insured against may or may not happen, and, in the majority of cases, does not happen. In life assurance, the event against which protection is granted - death, old age or retirement - is an uncertainty or is unlikely for one year, but each year the probability of loss increases until it becomes a certainty. On top of providing protection to the assured against the risk of death each year, for example, there is also a need in life assurance to accumulate an adequate fund for the purpose of meeting an absolutely certain claim that will eventually be lodged when death inevitably occurs.

Again, life assurance contracts are not contracts of indemnity. In most lines of insurance, an attempt is made to place the insured back to the same financial position he occupied before he suffered the loss. Since it is not possible to place a value on a human life, this principle does not therefore apply in life assurance.

Likewise the twin principles of subrogation and contribution do not apply in life assurance because of this difficulty of assigning a monetary value to human life.²⁸ Subrogation is designed to prevent the insured from making a profit out of a loss. Here, if the insured collects indemnity under the policy and the loss has been caused by the negligence of some third party, the right to collect damages from the negligent party must be relinquished to the insurer. However, relinquishment is required only to the extent of the amount paid by the insurer. If subrogation did not exist, the insured would profit by collecting twice for the loss - once from the insurer and once from the negligent party. Working along the same lines, contribution calls for an equitable division of a loss between insurers where two or more insurers cover the same insured and the same risk.²⁹ This prevents the insured from profiting by collecting the full amount of the loss (or sum insured) for the same risk from each insurer. Life assurance, on the other hand, allows the assured or his representatives to collect the amount of the loss from both the assurer and the negligent third party, and from each of the assurers for the full amount of the policy

28. Vaughan, Op Cit pp 167
 29. Dinsdale, E. A. and McMurdie, D. C. Elements of Insurance, London, Sir Isaac Pitman & Sons Ltd., 1973 pp 221

where the assured has placed the same risk with more than one assurer.

2.2 THE ORIGIN OF LIFE ASSURANCE

2.2.1 THE FOREIGN EXPERIENCE

As a whole, insurance in its present form has been practiced for a long time. Abundant evidence shows that many practices resembling insurance existed even in the ancient world.³⁰ As early as 3000 B.C. Chinese merchants utilized the technique of sharing risk. Because of treacherous rapids along the rivers plied by these merchants, not all the boats carrying their goods made it safely. To reduce the consequences of losses on any one individual, the merchants usually distributed their goods on each other's boats. When a boat was lost, the loss was thus shared by all rather than falling upon a single individual.

About the year 2500 B.C. the Great Code of Hammurabi provided for the transfer of the risk of loss from merchants to money-lenders.³¹ This code relieved the trader whose goods were lost to bandits of his debt to the money-lender who had lent him the money to buy the goods. Naturally, the money-lenders loaded their interest rates to cover this aspect. This technique was adapted by the Greeks and Phoenicians in their bottomry and respondentia arrangements.

30. International Insurance Seminars, Governor's Journal, October 1975, published by I.I.C. Inc. University of Alabama, U.S.A.

31. Vaughan Op Cit pp 63-5

Marine insurance, the earliest form of modern insurance appears to have had its origin in Italy around the thirteenth century.³² The Lombard merchants introduced marine insurance to Britain and other countries of Western Europe in the fourteenth and fifteenth centuries A.D. from where the idea of insurance has spread to other parts of the world.

Life assurance is fairly recent if compared to marine insurance. What appears to have been the earliest known life policy was dated June 18, 1583, on the life of one William Gibbons for twelve months at the rate of 8 per cent for £382 6s. 8d, for which sum sixteen underwriters were responsible.³³ Interestingly, Gibbons died within the year and the underwriters had to pay the sum assured.

By 1693, one Edmund Halley had prepared a mortality table but it wasn't until a century later that any degree of accuracy was achieved in the prediction of mortality. Founded in 1699, the first modern life assurance company, the Assurance of Widows and Orphans, charged all insureds the same premium. It and other London Companies that followed suit were unsuccessful. The innovation of premiums that varied with age was successfully introduced by the Equitable Society for the Assurance of Life and Survivorship - a company that was chartered in 1762. Other companies followed suit.³⁴

As the practice of life assurance became better known, a tendency of speculating in lives grew up. The lives of

32. Vaughan, Op Cit pp 64
 33. Raynes, Op Cit pp 113
 34. Vaughan, Op Cit

well-known people were assured for short periods, the premiums varying with their reputed state of health or exposure to hazard. The Life Assurance Act, 1774 was passed in order to put an end to this state of affairs.³⁵ This Act commonly known as the Gambling Act, rendered it illegal to effect an assurance upon a life unless the person taking out the policy had a pecuniary interest in the life assured. The Married Women's Property Acts, 1870 and 1882, and the Married Women's Policies of Assurance (Scotland) Act, 1880, were British Legislations that regulated the position of a wife with regard to her husband.

Over the nineteenth century, large numbers of life assurance companies were formed most of which later failed due to bad management and various incautious amalgamations.³⁶ The Life Assurance Companies Act 1870 was passed to correct the situation and bring stability in the industry. 1871, 1872 and 1909 saw other legislations passed in Britain which were subsequently repealed by the Insurance Companies Act, 1958 and amended by the Companies Act, 1967.

In North America, the first life assurance company was founded in 1759. It was known as The Corporation for Relief of Poor and Distressed Presbyterian Ministers and the Poor and Distressed Widows and Children of Presbyterian Ministers.³⁷ Presently assuring only Presbyterian Clergy and laypersons, it is the oldest active life assurance company in the world.

35. New, Op Cit pp 1

36. Ibid

37. Vaughan, Op Cit, pp 65

By 1835, several other stock companies writing life assurance had been established but they all failed. The earliest mutual life assurance company in America was New England Life, founded in 1835. Together with about a dozen more companies that followed it, it survives to this day.

2.2.2 THE AFRICAN CASE

Very little literature on the insurance industry in Africa exists today. It is however evident that insurance in its modern sense was unknown to Africa until the early part of this century.³⁸ It was introduced into each African territory by the early European settlers. The former British Colonies received the idea of modern insurance from early British merchants, and, insurance practices in these areas are almost entirely patterned along British lines. Likewise, those African countries that came under French, German, Portuguese, or Italian influence, adopted the insurance practice of their colonial masters.³⁹

It should be noted, however, that most parts of Africa had some forms of insurance arrangements entirely indigenous to Africa before the arrival of the early Europeans. Relics of these arrangements exist even today and they include the "extended family" system and age-grade associations that are common all over Africa.

38. Irukwu, J. O. Insurance Management in Africa, Ibadan, Nigeria, Caxton Press, 1977, pp 7-10

39. Ibid

Other arrangements include the "Susu" in Ghana,⁴⁰ "Ukoob" in Ethiopia and "Tilia", "Kimangan", "Kuhithia" and "Khukhwekekha" practices in Kenya.⁴¹ Such practices covered the area of and thus provided similar services as, fire, crop, livestock, health, accident and life assurance.

In Kenya, dealings with modern insurance began in 1904 when the London and Lancashire Insurance Company Limited appointed agents for fire insurance business only in Nairobi.⁴² Other companies followed suit, appointing as their agents banks, general traders, solicitors or firms of accountants. Full-fledged branch offices were opened by British insurers following the economic development of the country and growth in business. Such a pioneer firm was the Royal Exchange Assurance which opened a branch in the Colony in 1922. It was followed by Commercial Union in 1929,⁴³ the Norwich Union, Prudential, Old Mutual, Pioneer General and a few others immediately thereafter.

Over this period, the chief forms of insurance transacted were fire, marine cargo, and a little motor business. Life assurance business was still in its formative stages. This picture remained unchanged until well into the post-independence era before life assurance rose into an industry leader.

2.3 THE LIFE ASSURANCE PRODUCT: TYPES OF ASSURANCES

There are four main classes of life assurance distinguished by the manner in which they are marketed.

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40. Mensah, E. "Insurance Policy Conditions in Africa"
Conference papers of the Insurance Institute of Nigeria,
 Vol. IV, 1975 pp 100
41. Khamala, Op Cit pp 4
42. Irukwu, Op Cit pp 231
43. Ibid

They include (1) Individual life, (2) Industrial life, (3) Group life and (4) Credit life assurance.⁴⁴

2.3.1 INDIVIDUAL LIFE ASSURANCE

Also called ordinary life assurance, this type describes the life policies purchased by individuals to fulfil their assurance needs.⁴⁵ It constitutes the oldest and largest class of life assurance. Most people purchase their life assurance on an individual basis, carrying sums assured that are relatively large - in multiples of U.S. \$1000 or more.⁴⁶ Their premiums are paid either annually, semi-annually, quarterly or monthly. The premiums are usually remitted using the "check-off" system in the case of employed assureds, but they can also be paid by mail or in cash.

2.3.2 INDUSTRIAL LIFE ASSURANCE

This class, characterised by relatively small face amounts - U.S. \$1000 or less, is also called debit life assurance and the agents selling it are sometimes called debit agents.⁴⁷ A distinguishing feature of this class of assurance is the relatively small amount of the premiums which are paid as frequently as once a week. Usually the premiums are collected by a representative of the assurance company at the homes of the assureds.

44. Vaughan, Op Cit pp 186

45. Dorfman, Op Cit pp 237

46. Ibid

47. See Marshall, R. A. and Zubay, E. A. The Debit System of Marketing Life and Health Insurance, Englewood Cliffs, N. J., Prentice-Hall Inc., 1975

Industrial life assurance was designed to meet the needs of low-income workers. In most instances, it is sold in premium units, not units of face amount, that is, it is first determined how much weekly premium the assured can pay, and the amount of assurance will depend on how much coverage this premium will purchase under the plan selected at the attained age of the assured. The small amounts of sums assured obtained from this class of assurance go towards meeting funeral and burial expenses. As a general rule, coverage is provided without medical examination.

Due to two basic reasons, this class of assurance is expensive, that is, the cost per unit is relatively high if compared to other classes of assurance.⁴⁸ To begin with, the health of low-income workers and hence their life expectancy, is often not as good as that of the average member of the Society. Again, it is a significant administrative expense for an agent to collect and account for numerous small premiums. Because of these, most life assurance companies do not write this class of business.

2.3.3 GROUP LIFE INSURANCE

This is life assurance provided to a well-defined group of people who are associated for some purpose other than purchasing life assurance. Common groups to whom this class of assurance is sold include employee groups and members of professional associations.⁴⁹ Coverage is usually granted to the members of the

48. Ibid

49. Dorfman, Op Cit pp 236-7

group under one policy, called a master policy, without evidence of insurability, that is, without medical examination for the individual members of the group.

The members of the group may each get a certificate as evidence for the assurance, but the contract is basically between the employer, for example, and the assurance company. Usually, assurance companies insist that at least 75% or 25 members (whichever is the larger) of the group be covered by the policy.⁵⁰

Group life assurance programmes sponsored by an employer may be non-contributory although it is more common to find contributory arrangements where the employee pays a flat rate regardless of age, and the employer pays the balance. The contribution of the employer will remain substantially stable over the years. As older employees die, retire or leave the firm, their places are taken by younger workers, and as a consequence the age composition of the group remains relatively stable.⁵¹

The amount of assurance (sum assured) is in most cases either a flat amount for all employees or is determined as a percentage or multiple of the individual's salary. Three reasons make the cost for this class of assurance to be relatively low in comparison to other classes. First, the vast majority of group life policies are provided on a yearly - renewable-term basis. Term assurance provides the lowest per unit cost

50. Vaughan, Op Cit pp 187-8
51. Ibid

form of assurance. Secondly, the expenses of medical examination are dispensed with in group life. Finally, Group life involves mass marketing and mass administration. The result of this is that the expenses per life assured under group policies will be less than under individual policies.⁵²

In addition, this class of assurance is advantageous to the individual member of the group as the coverage under it is very liberal. There are usually no exclusions, and the sum assured will be paid for death from any cause, including suicide, without restrictions as to time. Also, most policies include a conversion provision, under which the assured may, within a specified period after termination of employment or membership to the group, convert all or a portion of the assurance to any form of individual policy currently offered by the assurance company.⁵³ Thus, group life has grown over a short period into one of the most important branches of life assurance today.

Franchise life assurance may be purchased by groups that are too small to meet the requirements of group life assurance. Generally, franchise life assurance is ordinary life, but mass-marketed. Under this class, plans may be written on five or more lives, but instead of a master policy and individual certificates as in group life, individual policies are issued. Each policy may vary as to the amount of sum assured, premium, and kind of assurance. Again, medical examination may be required.

52.
53.

Ibid
Dorfman Op Cit pp 237

Offered on both an individual and group basis, this assurance is sold through lending institutions (like commercial banks, sales finance companies and hire purchase retailers) to short-term borrowers contemplating consumer purchases, and instalment buyers.⁵⁴ It also includes mortgage protection life assurance.

Credit life protects both the lenders and debtors against financial loss should the debtor die before completing the required payments. Plans available are usually written on term assurance basis, generally decreasing in amount as the loan is repaid over time. The life of the borrower is initially assured for an amount equal to the amount of the loan. The policies provide for a gradual reduction in this amount to reflect the outstanding balance of the loan. In the event of the debtor's death, the scheduled balance is paid by the assurance company.⁵⁵

THE LIFE ASSURANCE PRODUCT: TYPES OF POLICIES

Many different kinds of life assurance contracts can be obtained. These contracts have been devised to meet the varying needs of individuals in their endeavours to provide for the future, either for themselves or for their dependants. Strictly speaking, however, only three major types of life assurance contracts can be identified: (1) Term insurance, (2) Whole life assurance, and (3) Endowment life assurance. Together with annuities, these three constitute the basis upon which numerous life assurance policies with differing areas of emphasis have developed.

Vaughan, Op Cit pp 188
Ibid

2.4.1 TERM ASSURANCE POLICIES

Term Assurance is the oldest and purest form of life assurance.⁵⁶

This type of policy provides life assurance solely - protection against the consequences of death only - and hence it is the simplest and cheapest cover obtainable. These policies, usually without profits, are issued for terms ranging from a few weeks to upwards of 20 years. Payment by the assurance company is made only if the life assured dies within the term of the policy. At the end of the policy period the cover ceases.

Medical examination at the expense of the life to be assured is normally required. In most cases the policy will give the assured the option of renewing the policy (at a higher premium) at the end of the policy period. In addition, the policy may be convertible or non-convertible.⁵⁷ If it is convertible, the assured may exchange it at a later date for some form of permanent assurance without medical examination.

Being a policy for pure protection, term policies do not develop cash values and there is no saving element. This being the case, it is not practicable to grant term assurance for very long term periods. The premium chargeable for a policy covering a very long period will necessarily approach the premium for a non-participating whole-of-life assurance. Since whole-of-life policies carry a surrender value whereas term policies do not, it is not prudent to take out a policy of the latter class for any extensive periods.⁵⁸

56. New, Op Cit pp 31-3
 57. Vaughan, Op Cit pp 182
 58. New, Ibid

Thus this type of assurance, giving protection at relatively low costs, is often sought by people going abroad on short trips. Some of these policies are also effected in connection with loan transactions.

A modified type, the decreasing term assurance, is ideal for loans that are repayable by instalments, for example, a building society house purchase mortgage. The principal outstanding from time to time in these transactions is a constantly diminishing quantity, and the cheapest policy that can be purchased to cover the borrower in the event of death must involve a diminishing sum assured. Sometimes a single premium is charged for this policy. The amount advanced by the building society or financier is correspondingly increased and the amount of the premium is automatically repaid over the term of the mortgage.⁵⁹

Another modification of term assurance is the increasing - term policy.⁶⁰ This type provides proceeds (sum assured) that increase each year. If death occurs in the first year of the policy, the face amount of the policy, for example, Sh. 10,000 is paid. By year 15, perhaps Shs. 17,000 would be paid to the beneficiary. In inflationary economies, policies of this type would be ideal. For instance, as the price of a funeral increases, so do the insurance proceeds.⁶¹

59. Ibid

60. Huebner, Op Cit pp 71-2

61. Dorfman, Op Cit pp 240

2.4.2

WHOLE LIFE ASSURANCE POLICIES

Unlike term assurance which pays benefits only if death occurs during the term of the policy, whole life assurance provides protection for the whole of the assured's life time, thus, it is sometimes called whole-of-life assurance. Payment of the face value of the policy is made upon death, regardless of when it may occur. The distinguishing feature of this form of cover for the assurer is that the assurer knows for certain that eventually, he must pay a claim on every whole life policy that is in force.⁶² This does not happen in the case of term assurance or other classes of insurance. Since payment is a certainty with whole life policies, the assurer must collect enough premiums to pay them. This accounts for the fact that whole life assurance premiums are initially higher than term assurance premiums.

Whole life policies can be broadly classified into three groups based on the method of premium payment. They include (1) Single premium, (2) Continuous premiums, and (3) Limited-payment policies.⁶³

Single-premium whole life policies are those in which the assurer promises to pay the sum assured, upon death, in exchange for one premium only, which is relatively large. Because of the size of the premium, consumers who normally want much life assurance do not go in for this type of policy.

62. Ibid

63. Ibid

Continuous-premium whole life, also known as ordinary life policy, is that for which the assured pays the same premium amount (be it monthly, quarterly, semi-annually or annually) as long as he is alive. These policies, sometimes referred to as level-premium whole life or straight - premium whole life require premiums to be paid until death or age 100 is attained - whichever occurs first. The biggest advantage of this form is that it is cheap and, where a person can afford to pay only a limited amount in premiums, the cover that can be purchased is larger than can be obtained under any other form of permanent assurance. Its major drawback is that premiums continue to be payable even in old age when the burden may be quite heavy.

Limited-payment life policies, as the name implies, are variations of the ordinary whole life assurance. Upon death, the sum assured is paid, but the premiums are limited to a fixed number, or they may be payable until a stipulated (often retirement) age is attained. Usually, the fewer the number of premium payments, or the shorter the premium payment period, the larger each payment will be. This type of policies are ideal for providing assurance protection for a man's family. The policyholder can arrange for the premiums to cease at the age when he expects to retire from business so that, on his retirement, when his income will invariably fall, he will be in possession of a fully paid-up policy. Should he find that at that time he no longer needs assurance protection, he can surrender his policy for a substantial amount of cash.⁶⁴

Normally, whole life policies are used to meet the assured's need for permanent protection and savings. The former include the burial fund as well as cases where the spouse, child, parent or ward is permanently dependent upon the assured for support. Life assurance used in estate plans and business continuation arrangements also relies on permanent protection. Since such needs are considered "permanent" or long-term, they cannot effectively be met by term assurance which will cease after the term period.⁶⁵

2.4.3 ENDOWMENT LIFE ASSURANCE POLICIES

A pure endowment contract is one that promises to pay the policy amount if, and only if, the assured survives the endowment period. This type of contract is, however, not popular. Endowment life assurance, on the other hand, is a combination of a pure endowment and term assurance for the endowment period. Thus, payment of the policy amount is paid either at the expiration of a fixed number of years (the policy period) or at death - whichever occurs first. This dual purpose has made endowment life the most popular type of assurance at the present time especially with thrifty people who use it as a means of saving money as well as providing assurance cover.⁶⁶

In endowment policies running for long terms, the savings, or investment element predominates, whereas endowments running for comparatively short terms stress the assurance element. Naturally, premiums charged for endowment policies are relatively higher than those charged for other forms of assurance.

65. Ibid
66. Ibid

Endowment policies can be made payable in 5,10,15,20, 30 or more years, or the length of the term may be arranged as to cause the policy to mature at certain ages, for instance 50,55,60 or 70. Usually, the premiums, payable monthly, semi-annually or annually, continue throughout the term of the policy, but if desired, they can be arranged on a limited-payment plan.

Whereas policies payable only in the event of death - term and whole life - are taken out for the benefit of others (dependants), endowment life policies also take care of the policyholder. Not only does it afford protection to others against death, it also ensures that the proceeds revert to the assured should he survive the term of the policy.⁶⁷ This is an application of the famous "you win if you live and you win if you die" dictum.⁶⁸

2.4.4 ANNUITIES

Annuities are the opposite of assurance. They have been called "upside-down life assurance" since in a sense, they are a reverse application of the law of large numbers as it is used in life assurance.⁶⁹ While life assurance has as its principal purpose, the creation of an estate, the annuity, on the other hand, has as its basic function the systematic liquidation of that which has been created, along either life assurance or non-life assurance lines such as savings bank accounts, stock or bond investments, or real estate.⁷⁰

67. Huebner Op Cit pp 92-9
 68. Vaughan Op Cit pp 183
 69. Ibid
 70. Huebner Op Cit

An annuity may be defined as a periodic payment made during a fixed period or for the duration of a designated life or lives.⁷¹ There are numerous annuities classified using various bases.⁷² First the annuity may be payable only for the duration of one or more lives. This covers the single-life and joint-and-survivor annuities. Secondly, annuities may be categorised according to the time payments are to commence. An immediate annuity is one where the first payment is due on one payment interval from the date of purchase. An annuity may also be deferred, that is there is a spread of several years between the date of purchase and the beginning of the annuity payments.

Classified according to the method of premium payment, the annuity may be purchased by a single premium (the annuity to begin immediately or to be deferred), or it may be purchased on an instalment basis over a period of years. Finally, the annuity may be classified according to the nature of the assurer's obligation. A pure, single-life annuity provides payments for the balance of the annuitant's lifetime regardless of how long or short it may be. The assurer's obligation ceases at the annuitant's death. Alternatively, the annuity may have a refund feature, with a specified amount to be paid to the annuitant's estate should he die within a specified period after payments commence.

Like life assurance, annuities are sold on both an individual and group basis. Although the purpose of the annuity is to protect

71.
72. Ibid
Vaughan Op Cit pp 190-1

against the risk of outliving one's income which is just the opposite of life assurance's purpose, that is, protecting against the risk of loss of income through premature death, several similarities abound between the two forms of contracts.⁷³

Annuities are simply another important means of assurance and are based on the same fundamental principles. They also employ the pooling technique and, premiums are computed on the basis of probabilities of death and survival as reflected in mortality tables.

2.5

THE LIFE ASSURANCE POLICY

Because of having both the savings or investment element and the protection element, the life assurance contract is a fairly flexible document that can be easily adjusted to meet changing circumstances and needs. Unlike many other insurance contracts, there is no standard policy form that must be used in life assurance. In spite of this, legal requirements as regards the life assurance policy are fairly similar in most countries.

2.5.1

LEGAL VALIDITY

The validity of the life assurance contract depends upon the same common-law principles that are applicable to other contracts.⁷⁴ The agreement, to begin with, must be between competent parties, that is, parties with legal capacity to contract. The contract must result from an offer and acceptance, and it must have, for its purpose, a legal object. There must be

73.

Huebner Op Cit pp 101-12

74.

Huebner Op Cit pp 167-86

valuable consideration, an insurable interest, and the contract must be made with full knowledge of all material facts and be free of fraud, mistake or misrepresentation.⁷⁵

2.5.2 GENERAL FORM OF THE POLICY

The absence of any legal requirements as to the exact form of the life assurance contract in most countries has meant that a great variety of forms are used and no two assurance companies issue identical forms. Most policies are, however, fairly similar in their contents.⁷⁶ Although the order in which they appear in the policy may differ from one assurer to the other, the following appear in virtually all life assurance policies: The heading, recitals, schedule, statement of the contract, signatures and seal, and the general conditions and privileges governing the contract.

1. The heading includes the name and address of the assurance office and other salient features of the company, for example, the date of incorporation.
2. Recitals mark the beginning of the policy proper. It is stated here that the assurers have received a proposal and it is declared that this proposal will form the basis of the contract.
3. The statement of the contract commences with the recital that the first premium has been paid.

75. Ibid

76. Vaughan Op Cit pp 211, and New Op Cit pp 110-22

The assurers then state that they will pay the sum assured specified in the policy schedule upon satisfactory proof of:

- i) The happening of the event upon which the sum assured is payable and which is set out in the policy schedule,
- ii) The title of the person claiming payment, and
- iii) The date of birth of the life assured.⁷⁷

4. Set out in the schedule are: The policy number, the date of commencement of the policy, the name, occupation and other personal details of the assured, the date of the proposal and declaration, and the name and occupation of the assured (if not the life assured).

Also stated is the amount of the sum assured and the event upon which it is payable, that is,

- i) The death of the life assured, or
- ii) The death of the life assured before a specified date or the survival of the life assured until that date, or
- iii) The date of the life assured before the expiry date of a term assurance policy.

The schedule also specifies the person to whom the sum assured will be paid, that is, the beneficiary, whether the policy is with or without participation in profits, the amount of the first premium and the amounts of renewal premiums, the date when premiums are payable and the period during which they are payable. The date of birth of the life assured and whether age is or is not admitted by the assurers is also stated.

5. The life assurance policy carries several conditions, each of which is aimed at fulfilling one of the following:

- i) To explain the nature of the contract and its legal implications;
- ii) To limit the scope of the assurance; and
- iii) To add to the benefits of the assurance.⁷⁸

The most common conditions include the following:

- a) Currently, policies usually state that they are free from all restrictions as to foreign residence, travel and occupation.⁷⁹
- b) The Grace Period.

Technically, the policy lapses if the assured does not pay the premium on the due date. The Grace Period, however, modifies this state of affairs.

A typical clause of this type reads:

A grace period of 31 days shall be allowed for payment of a premium in default. The policy shall continue in full force during the grace period. If the assured dies during such period, the premium in default shall be paid from the proceeds of this policy.⁸⁰

If the premiums are payable at shorter intervals, for example, monthly, the grace period will be shorter, for instance, ten days only.

78. New, Op Cit pp 114-7
 79. Ivamy, Op Cit pp 96
 80. Vaughan, Op Cit pp 214

c) The Incontestable Clause.

Known as the Indisputability Clause in Britain,⁸¹ this provision states that after the policy has validly been in force for a specified period, usually two years, it is not to be liable to any ground of challenge whatever connected with the original documents proceeding on which the assurance was granted. Thus the assurer has a relatively short period in which to uncover any fraud. Even if a notorious fraud is discovered after this period has elapsed, the assurer cannot void the policy.⁸²

d) Misstatement of Age.

This provision states that, in the event that the assured has misstated his or her age, the policy will not be void, instead, the face of the policy will be adjusted to the amount of assurance that the premium paid would have purchased at the correct age. Generally, the amount of assurance that a given premium will purchase will vary according to the age of the assured. Since there is a marked tendency among people to understate their ages, this provision is included in the policy to ensure that assurers are not "swindled."

e) Reinstatement.

This provision gives the assured the opportunity to renew the policy that has lapsed as a result of non-payment of premiums. A typical reinstatement provision reads:

81. Ivamy, *Ibid*
82. Dorfman, *Op Cit* pp 270

This policy may be reinstated within five years after the date of premium default if it has not been surrendered for its cash value. Reinstatement is subject to:

- i) Receipt of evidence of insurability of the assured satisfactory to the company
- ii) Payment of all overdue premiums with interest from the due date of each at the rate of 6% per annum; and
- iii) Payments or reinstatement of any indebtedness existing on the date of premium default with interest from that date.⁸³

Beyond the good health of the assured, evidence of insurability means, among other things, that the assured must not be engaged in any dangerous occupations or hobbies or awaiting execution for a crime in a foreign country.⁸⁴

f)

Nonforfeiture.

This provision is found only in those policies that have cash values, that is, whole life policies, but not term policies. Originally, in the event of a missed premium, policies were terminated with no return to the assured. With the development of the level premium plan the practice nowadays is to include non-forfeiture values in the policy. At any time after the policy has begun to accumulate a cash value, the assured is entitled to the cash value should he or she terminate the policy for one reason or another. This cash value may be taken in one of three ways:

83.
84.

Vaughan, Op Cit pp 214-5
Dorfman, Ibid

The assured may take the cash listed in the non-forfeiture values.

Alternatively, the assured may take a paid-up policy with a reduced sum assured that the cash value can purchase as a single premium.

The assured may elect to have the policy continued in force as term assurance for as long as the cash value will permit. The cash value is used here as a net single premium.⁸⁵

g) Suicide.

A typical suicide clause reads:

If within two years following the date of issue of this policy and while it is in force, the assured, whether sane or insane, shall die by his own hand or act, the Company will be liable only for the amount of premiums paid hereunder, which shall be paid in one sum to the beneficiary.⁸⁶

The purpose of this exclusion is to protect the assurers against a person who might purchase the assurance with the express intention of committing suicide. It is assumed that if the assured has not committed suicide within the two years, the reason for doing so will probably have disappeared. Thereafter, death by suicide becomes just another cause of death, and the company will pay for it.⁸⁷

85. Vaughan, Op Cit pp 223
 86. Huebner, Op Cit pp 194
 87. Vaughan, Ibid

Other restrictive clauses covering war, aviation and hazardous occupation may be included in accordance with legal stipulations as spelt out by legislations, for example, as the case is in some states in the U.S.⁸⁸

2.5.3 RIDERS AND OPTIONS

The life assurance policy has been likened to an automobile.⁸⁹ Like most cars which can be purchased with such extra-cost options as radio, cassette player, tilt-steering wheel, power windows, tinted windows, remote control radio antenna, etc, life assurance can also be purchased with such extra-cost options, or riders, as guaranteed insurability, waiver of premium, and double "indemnity".

a) The Guaranteed Insurability Option.

This rider, applicable to only permanent types of contracts such as whole life and endowment, allows the assured to purchase more assurance at stated intervals regardless of changes in insurability. Usually, the amount of the additional assurances is limited to the face amount of the basic policy or an amount stipulated in the policy for the additional purchase option, whichever is the smaller.⁹⁰ An extra premium that is based on the Company's estimate of the extra mortality that will be experienced on policies issued without evidence of insurability, will be charged for this option. For those assureds whose health declines in the years after the first purchase of life assurance, this option can prove very useful.

88. Ibid

89. Dorfman Op Cit pp 277-9

90. Vaughan Op Cit pp 231

b) Waiver of Premium Option.

This is one of the most important riders available to a person purchasing life assurance. Under the provisions of this option the assurer forgoes all premiums due from the assured in the event that the latter becomes totally and permanently disabled. Although the premiums are waived during disability period, the policy remains in force, that is, the cash value will continue increasing and dividends (if any) are paid to the assured just as if payment of the premiums was continuing. The advantages of this option are obvious. It is evident that once an assured becomes disabled, not only will it be difficult, but also impossible to continue the premium payments or to obtain assurance coverage, thus it is necessary for the present coverage to be continued.

c) The Double-Indemnity Option.

This option provides that should the assured die as a result of an accident, twice the face amount of the policy will be paid by the assurance company. Some assurers push this a step further and provide a triple or quadruple indemnity.⁹¹

Typically, the clause making this provision reads:

The Company agrees to pay an Accidental Death Benefit upon receipt at its Home Office of due proof that the death of the assured resulted, directly and independently of all other causes, from accidental bodily injury, provided that death occurred within 90 days after such injury and while this benefit is in effect.⁹²

d) Participation in Profits.

Most companies transacting life assurance business issue two classes of policies nowadays and the assured has the option to pick either,

- i) Those which share in the profits, known as with-profit or participating policies, and
- ii) Those which do not share in the profits known as without-profits or non-participating policies.⁹³

A life policy which merely guarantees the payment of the sum assured on the occurrence of the assured event falls under the second category. For a slightly higher premium, however, most policyholders prefer to effect policies falling within the first category under which bonuses are paid.⁹⁴

Periodic valuations of their assets and liabilities are made by life assurance companies and the bonus declared depends on the surplus available in the life fund at the time of the valuation. These valuations may be done annually, triennially, or quinquennially depending on the practice of the company. Taken into account are such factors as rates of interest, the general state of the money market and many

92. Ibid

93. New, Op Cit pp 15-20

94. Mowbray, A. H. Insurance: Its Theory and Practice in the United States, New York, McGraw-Hill Inc., 1969, pp 308-9

other economic considerations, but invariably most life assurance companies are so stable that bonuses are usually declared after these valuations.⁹⁵

The various types of bonuses available include:

- i) The simple reversionary bonus. This entails a percentage addition to the sum assured and it is payable at the same time as the sum assured.
- ii) The compound reversionary bonus. Under this method, both the sum assured and the bonus added to it are both used to calculate the bonus for the succeeding period. It differs from the simple reversionary bonus system in the same way that compound interest differs from simple interest.
- iii) Cash bonus. This method entails a cash payment being made to each with-profits policyholder at each bonus distribution in a manner similar to dividend payment.
- iv) Discounted bonus. This involves "anticipated" bonuses that are used to reduce premiums payable. If bonuses declared exceed those anticipated, the excess is credited to the sum assured, if they fall short, the sum assured is reduced or a cash payment is required from the policyholder.
- v) Guaranteed bonus. This is, in reality, the granting of a non-profit assurance with an increasing sum assured - increasing each year by the amount guaranteed.

95. Dinsdale, Op Cit pp 55-7

vi) Bonuses in reduction of premiums. Under this method, no profits are allotted for the first five or seven years of the existence of the policy, but at the end of this period a substantial reduction is made in the premium. Thereafter, the policy receives a small reduction year by year until no further premiums are payable. Subsequent bonuses thereafter, are allotted by way of reversionary additions to the sum assured.

Many other bonuses, going under various names are issued by life assurance companies in order to give policyholders a full share in the capital gains made by the life fund.

e) Policy Loans.

The policy loan provision is one of the most notable secondary benefits of the life assurance contract. Under it, the assured may, at any time, obtain a loan from the assurance company, for an amount equal to or less than the cash surrender value, using the policy as collateral for the loan. This provision is mostly utilised by policyholders who are in need of temporary funds.

Tied in to this is the automatic premium loan provision which typically reads:

A premium loan shall be automatically granted to pay a premium in default. A premium for any other frequency permitted by this policy shall be loaned whenever the loan value, less any indebtedness, is sufficient for such premium but insufficient for a loan of the premium in default.⁹⁶

Although policy loans (including automatic premium loans) have obvious benefits, they have the distinct disadvantage of constituting a lien against the contract - to be deducted from the policy proceeds should the assured die before repaying the loan. This could defeat the purpose of life assurance.⁹⁷

2.6 PREMIUM RATES AND THEIR COMPUTATION

Premium computation in life assurance is done by actuaries who use substantially more mathematics than many of the average assureds command. However, a grasp of the fundamental principles used in premium computation will afford most assureds an appreciation of the basic differences among the various life assurance contracts. As Vaughan points out, differences in premiums among the various forms reflect not only the differing probabilities of payment under the policies, but also the length of time for which protection is afforded, and the manner in which the premiums are to be paid.⁹⁸

2.6.1 PREMIUM COMPUTATION

Life assurance rate making is made up of three primary elements: Mortality, interest and loading.⁹⁹ Mortality and interest are the basic considerations in the computation of the net premium which reflects only the cost of claims and omits provision for operating expenses. The gross premium, which reflects the selling price of the contract, that is, the amount the assured has to pay, is made up of the net premium plus an expense loading.

97. Ibid
98. Ibid
99. Ibid

a) Mortality:

In all forms of insurance, the risk is transferred from the individual to the insurance company. Since the risk in life assurance is based on life contingencies, it is important for the assurer to know, within reasonable limits, how many people will die at each age. This information is provided by the mortality table which is simply an expression of the probabilities of living or dying at a given age.

Mortality tables are based on observations of the numbers of death that occur. The actuary first determines the rate of death at each given age (for example, the number dying per thousand at ages 1,2,3,4 etc.) and then, on the basis of this information, constructs a table with an arbitrary number of lives at the beginning age. The 1958 Commissioner's Standard Ordinary Mortality Table (1958 CSO), the most widely used mortality table today,¹⁰⁰ has a radix, or beginning point, of 10,000,000 lives. It contains five columns: age, the number living at each age out of the original 10,000,000; the number of those living at the start of a given year who will die in that year; the ratio of persons dying to persons living expressed as deaths per thousand; and the number of years that those living at any given age can expect, on the average, to live.

With the mortality table, the computation of assurance premium at any given age becomes a matter of simple arithmetic.¹⁰¹ For instance, according to the 1958 CSO, 9,647,694 persons are alive at age 21. Out of this figure, 17,655 will die before attaining age 22, that is, out of every 1000 persons aged 21, 1.83 will die before 22. Thus to assure the 9,647,694 persons for Shs. 1000 each for one year will require Shs. 17,655,000 (17,655 x 1000) to pay for death claims. If Shs. 1.83 is collected from each assured (9,647,694 x 1.83) there will be a sufficient fund to pay all claims. In this example, the Shs. 1.83 is the net premium (the cost of the losses only) that each assured pays, that is,

$$\text{Shs. } 17,655,000 \div 9,647,694 = \text{Shs. } 1.83^{102}$$

b)

Interest:

Because assurance companies collect premiums in advance and only pay claims at some future date, it follows that at any one time, the company has funds that are not immediately needed. It invests this amount and since it earns interest on it, it does not need to collect from the assureds the full amount of future losses. Something less than the full amount of the losses is collected in premium payments, invested, and then losses are paid out of the total fund of principal and interest. Thus in premium computation, the present value of a future Shilling is a concept of profound importance.¹⁰³ The present value of a future Shilling is

Vaughan, Op Cit pp 195-7

Ibid

Ibid

calculated by dividing a Shilling by the future value of the Shilling at a specified rate of interest.

Already computed present values of the Shilling at various periods in the future and at varying rates of interest are available in present value tables. Financiers and actuaries make extensive use of these tables.¹⁰⁴ The present value tables show, for instance, that if Shs. 0.97 is invested at the beginning of the year, Shs. 1.00 will be earned at the end of the year if an interest rate of 3 per cent is applied on the investment.

Applying this concept to the example of Shs. 1000 worth of assurance for one year for each of the 9,647,694 persons alive at age 21, the cost of the claims for the group as a whole (with interest at 3%) is Shs. 17, 140, 780 rather than Shs. 17,655,000. If Shs. 17,140,780 is invested at 3% it will equal Shs. 17,655,000 at the end of the year. Thus the cost per assured becomes $\text{Sh } 17,140,780 \div 9,647,694 = \text{Shs. } 1.776$ instead of the Shs. 1.83.

If the assureds are to be assured for another year, the premium, becomes higher because there are fewer members left to pay the costs and at the same time the number of deaths would have increased. For subsequent years premiums will be

$$\text{At age 22: } (\text{Shs. } 17,912,000 \times 0.970874) \div 9,630,039 = \text{Shs. } 1.81$$

$$\text{At age 23: } (\text{Shs. } 18,167,000 \times 0.970874) \div 9,612,127 = \text{Shs. } 1.84$$

$$\text{At age 24: } (\text{Shs. } 18,324,000 \times 0.970874) \div 9,593,960 = \text{Shs. } 1.85$$

$$\text{At age 25: } (\text{Shs. } 18,481,000 \times 0.970874) \div 9,575,636 = \text{Shs. } 1.87$$

Only 6,800,531 will still be alive at age 65 out of the original 10,000,000. The 1958 CSO table shows that of these,

215,917 will die before reaching age 66. Thus at age 65, the net premium for a 1-year term policy will be:

Shs. $215,917,000 \times 0.970874 \div 6,800,531 = \text{Shs. } 30.83$. Thus, since premiums are based on mortality, they increase as the assureds grow older. These premiums become quite prohibitive at advanced ages.

c) The Net Single Premium:

This is a sum "which, if paid at the time the policy is initiated, and augmented by compound interest, will pay the benefits as they come due".¹⁰⁵ This premium is computed along the same lines outlined above.

For a 5-year term policy initiated at age 35, for example, the net single premium is the sum of all the amounts needed by the assurer to pay claims at the end of each year. In the first year 23,528 assureds die. The company will need Shs. 23,528,000 to pay these claims. For this, it will need $(0.970874 \times 23,528,000)$ Shs. 22,822,160 at the beginning of the first year. 24,685 assureds die in the second year and the company will need Shs. 24,685,000 to pay these claims. Discounted over 2 years, the company needs $(0.942596 \times \text{Shs. } 24,685,000)$ Shs. 23,267,980 on hand at the beginning of the first year to pay these claims. Similarly, Shs. 23,896,180 at the beginning of the first year to pay for the claims arising out of the 26,112 deaths that occur in the third year is needed. Shs. 24,869,640 and Shs. 25,992,130 will be needed at the beginning of the first year to pay for the claims in the fourth and fifth years respectively. The net single premium for each assured is computed by summing up these figures and dividing by the number of assureds at the beginning of the period, that is,

$$\text{Shs. } 120,848,000 \div 9,373,807 = \text{Shs. } 12.89$$

The same procedure is followed in the case of the whole life policy. The only difference is that here the policy is taken to be a term policy that matures at age 100. To get the net single premium for a whole life policy taken at age 35, the same process will be followed as if the policy was a term policy for 65 years. Similarly, a whole life policy taken at age 21 will be considered as a term policy for 79 years.

In computing the net single premium for an endowment policy, the same figures as those used in the 5-year term policy will be used. The only difference is that for the fifth year, the number of claims will be 9,241,359 instead of 30,132. Thus Shs. 9,241,359,000 has to be discounted over five years to get (Shs. 9,241,359,000 \div 0.862,609) Shs. 7,971,679,446 instead of Shs. 25,992,130 that must be available at the beginning of the first year to pay the claims in the fifth year. This difference arises because the endowment policy agrees to pay the face amount to the assureds who survive as well as those who die. Thus the 9,241,359 assureds who are alive at age 40 must be paid along with those who have died over the 5 years of the policy. Summing the present value of the amounts needed and dividing the figure by the number of assureds at the time the policy was initiated, the net single premium is

$$\text{Shs. } 8,066,535,406 \div 9,373,807 = \text{Shs. } 861.61 \text{ per Shs. } 1000.00$$

d) The Level Premium:

The net single premium forms the basis of computation of the level premium for long-term assurance and whole life policies.¹⁰⁶ Since the net single premium required to purchase whole life assurance, for example, is so large as to be impractical for most assureds, the level premium was conceived by assurers to take care of this shortcoming.

Two basic assumptions were made in the computation of the net single premium. First, it was assumed that for the whole life policy, all the money (the premium) will be available at the beginning of the period. Thus interest will be earned on this amount and this, together with the principal will go towards meeting the claims. In the level premium, not all the interest that would have been earned will be available because the assurer does not have all the premiums at the beginning of the period. This "missing interest" must therefore, be taken into account in the level premium.

Secondly, not all the assureds who begin to pay the series of level premium payments will live to complete all the payments. A charge must therefore, be made in the level premium plan for these "missing premiums". As Dorfman points out, the missing premiums and interest make the level premium more than the simple division of the net single premium by the term of the policy (65 years for whole life policies).¹⁰⁷ Thus, in computing the level premium,

106. Ibid

107. Dorfman, Op Cit pp 293

We first compute the net single premium and then convert it to a series of annual payments, taking into consideration the number of premiums that can be expected and the year in which the expected premium will be paid.¹⁰⁸

Huebner¹⁰⁹ and Mehr¹¹⁰ consider this whole question of premium rates and their computation in greater detail. In rounding off this section, it is pointed out here that the level premium payment plan involves the payment of equal amounts of the premium over the term of the policy or for a fixed number of years. Naturally, the premium, in the initial years, exceeds the mortality cost. Interest is earned on this difference. In the later years of the policy, the difference is negative, that is, the cost of mortality exceeds the annual premium paid. The assurer makes up for this difference by charging more than the mortality cost in the early years of the policy. It can be seen that the positive difference between premium payments and mortality cost in the initial years is the basic reason explaining why policies develop cash values.¹¹¹ This difference also explains the existence of policy reserves.

e) The Loading:

Vaughan points out that regardless of the type of insurance, the premium income of the insurer must be sufficient to cover losses and expenses.¹¹² This assertion holds true for life insurers too. The life assurance company has to predict its claims and expenses and allocate them to the various

108. Vaughan, Op Cit pp 202
 109. Huebner, Op Cit Chapters 20-8
 110. Mehr, R. I. Life Insurance: Theory and Practice, Austin, Texas, Business-Publications Inc., 1977, Chapter 24
 111. Dorfman, Op Cit
 112. Vaughan, Op Cit pp 92

classes of policyholders. The amount the assured is called upon to pay, the gross premium, is thus based on a gross rate which is composed of two elements; the part designated to cover the claims and the "loading" which covers the assurers' expenses. The "pure premium", or the net premium, is that part of the rate that covers the claims.

Onto this pure premium must be added a loading to cover such expenses as:

- i) Commissions
- ii) Other acquisition expenses
- iii) Premium taxes
- iv) Allowance for contingencies and profit.¹¹³

In loading the premium, expenses are normally treated as a percentage of the final rate, on the assumption that they will increase proportionately with premiums. The gross rate is then derived by the division of the pure premium by a "permissible loss ratio" which is simply the percentage of the premium that will be available to pay the claims after provision for expenses.¹¹⁴

Hence,

$$\text{Gross Rate} = \frac{\text{Pure Premium}}{1 - \text{Expense Ratio}}$$

Multiplying the gross rate with the number of units (thousands) of cover wanted will give the gross premium chargeable.

2.7

THE MARKETING OF LIFE ASSURANCE

Like other lines of insurance, life assurance is also based on the law of large numbers. The accuracy of the

113. Ibid
114. Ibid

assurer's predictions will therefore, increase with an increase in the number of separate individual risks assured. Thus, as argued by Mowbray,¹¹⁵ the stability of the assurer's experience will increase with an increase in the volume of its transactions. It is, therefore, to the assurer's interest to seek as large a volume of business as it can handle. Other cogent reasons, for instance, increased profits, also make assurance companies to go for increased volumes of business. This makes marketing a very critical element in the life assurance mechanism, and the growth and survival of the company is tied to developing and maintaining an effective marketing programme.

Various distribution systems are used in marketing life assurance. Huebner and Black discuss a number of them.¹¹⁶ But as Mowbray maintains, the form and extent of the sales organization or programme, will vary from one type of assurer to another.¹¹⁷ The mutual company will use its policyholders and officials to interest neighbours or friends in the venture. The typical stock company will have an elaborate marketing programme involving salaried employees, independent and captive agents, and brokers. Between these two extremes is a wide range of marketing systems that are used by the majority of assurers. It is evident, however, that the agent and the broker play an important role in the marketing effort although the type of assurance company is an important consideration.

115. Mowbray, Op Cit pp 393-406

116. Huebner, Op Cit Chapter 40

117. Mowbray, Ibid

2.7.1 THE AGENT

Without doubt, the marketing of life assurance revolves around the agent who provides the usual link connecting the assured and the assurance company.¹¹⁸ In life assurance, the agent is primarily a salesman. He is,

equipped with a rate-book showing the rates, surrender values, and other features of policies issued by his company, as well as sample policies and application blanks. These correspond, respectively, to the price lists, samples and order blanks of a merchandise salesman. The agent is expected diligently to canvass his field for his insurer, usually devoting his entire time to it He is paid by a commission on the premiums for policies issued upon applications secured by him.¹¹⁹

Most life offices insist that the individual agents should represent them exclusively. Life agents who represent more than one company are therefore rare. Distinguished by the amount of supervision given to an agent, there are two distribution techniques used by most life offices, the general agent and the branch office.¹²⁰

- a) General agents are appointed by the assurer and then given responsibility for a specified territory. The general agent is also given authority to recruit and train his or her own salespeople or sub-agents. On top of this local training, the assurer often provides advanced training sessions at the home office. It is usual for the general agent to finance a

118. Vaughan, Ibid
 119. Mowbray, Op Cit pp 396
 120. Vaughan, Op Cit pp 73

new agent until he or she is well established. Working for the general agent is the special or soliciting agent who is the most familiar to the public. His work is to motivate people to make applications to his company for life assurance. Since life assurance contracts cannot be cancelled by the assurer - except for non-payment of premiums - once they have taken effect, the life assurance agent is correspondingly constrained. He cannot bind the assurer on any risk.¹²¹

Whereas this system is an inexpensive and riskless manner of an assurer starting business in a new era, it has the distinct disadvantage of affording the assurance company very little control and supervision of the agent.

- b) The Branch Manager, on the other hand, is a salaried employee of the assurance company. Since the branch office is a mere extension of the home office, its expenses are paid by the assurance company.¹²² Normally, Branch Managers receive a salary and an additional compensation on the basis of the productivity of the agents he supervises.

Although the general agent system differs from the branch office, it is not uncommon to find a company using a system that incorporates characteristics of both techniques. Either way, the agent is first and foremost, a representative of the assurance company.

121. Dorfman, Op Cit pp 68
122. Ibid

2.7.2 THE BROKER

The broker is encountered much less frequently in life assurance than in other lines of insurance. The broker is primarily the agent of the assured, although he normally receives compensation in the form of a commission from the company.¹²³ Although he does not decline business from people "whose insurance needs are limited, the broker specializes in serving those whose insurance needs are large and many sided, especially large corporations".¹²⁴ The broker solicits business from clients and places them with an assurer although he is not required to place it with any one particular assurer. He places the assurance with companies that he considers good and keeps in touch with the conditions of the assurer in order to be in a position to suggest changes if advisable. A competent broker studies the assurance needs of a client and

makes up a complete schedule of the kinds and amounts of insurance to be carried . . . he recommends changes to reduce the hazard and secure the lowest rates. He keeps records of expiration dates and calls attention to the needs for renewing expiring policies.¹²⁵

2.7.3 TYPES OF ASSURERS

Classified according to the type of products that they sell, there are three types of insurance companies:

123. Ibid
 124. Mowbray, Op Cit pp 403
 125. Ibid

- i) Life offices, which offer life assurance and annuities.
- ii) General offices or insurers which sell marine, aviation, automobile, property, liability insurance, etc.
- iii) Composite offices selling both life assurance and general insurance.

In addition to this classification insurance companies can also be grouped according to their legal form of ownership into:

- i) Capital stock companies
- ii) Mutual insurance companies
- iii) Lloyd's associations

a) Stock Companies:

A stock life assurance company is one that is organized for the purpose of making a profit.¹²⁶ The stockholders assume the risk that is transferred from the assureds. The capital that is put up by the stockholders is used for running the company until premium income is sufficient to pay losses and operating expenses. Should actuarial predictions prove accurate, the premiums collected will not only pay losses and operating expenses, but a profit will also be returned to the shareholders. In addition, they will provide a surplus fund that will serve as a guarantee to the policyholders that their contracts will be fulfilled. The majority of companies writing life assurance are stock companies.¹²⁷

126. Vaughan, Op Cit pp 68
127. Huebner, Op Cit pp 570

b) Mutual Assurance Companies:

Huebner defines a mutual assurance company as one where the policyholders "theoretically own the company and control the management".¹²⁸ Since in practice, policyowners are many, widely scattered geographically, have little intercommunication, each have a small stake in the company, and many do not know or fully understand their right; it is therefore, common to find directors and officers controlling the mutual company. Mutual assurance companies are organized for the purpose of providing assurance for the members. A typical mutual company is characterised by its lack of capital stock, and the distribution of earnings. After paying all losses and operating expenses, any money left over is returned to the policyholders in the form of dividends. Members of a mutual company assume their liability collectively. This type of organization is quite popular in the U.S. where it writes over one-half of all life assurance premiums.¹²⁹

c) Lloyd's Associations:

These are other sources of providing coverage although these organizations do not themselves underwrite insurance business. Lloyd's of London is the oldest and most famous of this type of association.

128.
129.

Ibid
Vaughan, Op Cit pp 68-71

It is a corporation that markets the services of about 18,500 individuals. The organization itself does not issue policies, instead, the members of the association do it. Each member is technically a separate "insurance company" issuing policies and underwriting risks separately or collectively with other members.¹³⁰ The association is governed by a group - The Committee of Lloyd's - which establishes standards with which members must comply. American Lloyd's associations are run along the same lines.

In Lloyd's associations, a single underwriter will not assume the whole risk that is provided by a given policy. Instead, he assumes only a fraction. Should loss occur, he is liable for this fraction only and does not have to assume the fraction underwritten by a fellow member. Normally, in cases where there is a dispute concerning coverage under the policy, successful litigation against one underwriter under a contract will automatically mean that the other underwriters have to pay their portion of the loss. However, Lloyd's associations write very little life business. They are more notable in marine, aviation and property lines.¹³¹

2.8

UNDERWRITING LIFE ASSURANCE

The proposer (assured-to-be) is under an obligation in life assurance, as in other classes of insurance, to disclose all material facts and to make no material misrepresentations to the assurer concerning the risk at hand. Since the assurer

130.
131.

Ibid
Ibid

is, to begin with, completely ignorant about the facts surrounding the risk, and given that life assurance contracts are generally long-term and critical to the very welfare of the individual or family, this duty to disclose is made even more important.

The sources that the assurer can use to obtain information about the life risk include the proposal form, the medical examination, and the agent's report - the last two serving the basic purpose of counterchecking or corroborating the information given in the proposal form. The company, upon receipt of this information, selects and classifies the risk.

2.8.1 THE PROPOSAL FORM

Duly filled, the proposal form constitutes the offer or application for assurance.¹³² It is prepared and issued by the company to proposers, through the agent in most cases. Questions, contained on the proposal form and to be answered by the proposer, are both medical and non-medical ones. They include:

- i) The name, residence, occupation, date of birth, age next birthday, place of birth, height and weight of the proposer;
- ii) The description of the type of policy required, for example, whole life policy, endowment policy, with-profits policy;
- iii) The sum assured required;
- iv) Whether the policy is to be for the assured's estate or of named beneficiaries;

- v) Whether a proposal has been declined or accepted at an extra premium;
- vi) Whether a proposal has ever been made to the assurers concerned or to other assurers;
- vii) Details of previous illnesses and of medical advice and treatment, for example, in the last 5 years;
- vii) Details of any circumstances affecting the suitability of the life assured for insurance purposes.¹³³

The proposer has to sign at the end of the proposal form that the answers given are true and that they are to form the basis of the contract.

In addition to these recorded answers will be medical or paramedical reports - the findings of the doctor's or paramedic's examination - if any were carried out. The medical examination includes "height and weight, pulse and blood pressure readings, chest and abdomen measurements, condition of the heart, lungs, nervous system, and urinalysis."¹³⁴ If policies with large face amounts are sought, more detailed examinations involving such aspects as chest X-ray, and electrocardiograms are used, and a second medical examination may be insisted on.¹³⁵

The back of most proposal forms includes certain questions about the risk that the agent must answer giving his opinion of the risk.

Ivamy, Op Cit pp 72
 Huebner, Op Cit pp 451
 Ibid

2.8.2 SELECTION OF THE RISK

Selection is done by the assurer's underwriting department whose basic functions are:

- i) To secure a safe distribution of risks, and
- ii) To secure a profitable distribution of risks!¹³⁶

These functions are performed by guarding against adverse selection, securing proper volumes of risk, spreading the risk and going for favourable selection.

a) Adverse Selection:

People are made in such a way that the worst risks are the most likely to seek assurance.¹³⁷ Also, individuals naturally seek the most favourable terms for transferring their risks. These two factors lead to adverse selection for the assurer, that is, the risks that the assurer finds easiest to get and hold are the poorest in their class, and these poor assureds will often choose the benefits most favourable to them if given a choice. The underwriting department must overcome the effect of adverse selection by a careful selection of the better assureds and careful drafting of assurance contracts.

b) Volume of Risk:

Since assurance is based on the law of large numbers, its successful conduct calls for the assurer to obtain an adequate volume of business in order to produce dependable average results. The underwriting department has to work with the production (marketing) department towards this end. Some underwriters may overlook the danger of adverse

136.
137.

Mowbray, Op Cit pp 460
Ibid

selection and rely upon volume alone to give a dependable result in times of prosperity when business is booming and losses are few.¹³⁸ The subsequent loss ratios will have a corrective effect.

c) Spreading the Risk:

The safety of the assurer calls for the avoidance of excessive amounts at risk on a single hazard. To achieve this involves the determination of the largest net amount the assurer will assume on any single exposure, that is, the net line.¹³⁹ The aggregate amount that will be taken in one group of exposures subject to a single hazard has to be determined also. This whole process means that the assurer is spread the risk - the proverbial application of the principle of not putting all eggs in one basket.

d) Favourable Selection:

This involves "not only the avoidance of excessive lines and adverse selection, but the deliberate selection of the best specimens of each class."¹⁴⁰ Some life assurance companies writing only standard risks, for instance, may limit their writing as far as possible to certain forms of the policy because the mortality of persons taking these forms is lower than among the general assured lives.

Preliminary selection is done by the agent, or representative in the field, using instructions communicated from the head office in the form of rate books, manuals,

138. Ibid
139. Ibid
140. Ibid

circulars and correspondence. These instructions will cover the classes of business to be sought, the amount to be written on any one assured exposure, and the type of exposures the assurance company will not accept. The agent in this case has no authority to bind the company on any risk.¹⁴¹ In case the risk is not wholly unacceptable but may safely be taken on some other basis than that applied for, a policy on such a plan may be offered. In such circumstances, it is necessary to send with the policy an agreement to the proposal, to be signed and returned by the proposer.

2.8.3 REASSURANCE

In order to satisfy its field agents and representatives and for other reasons too, the life assurer may find it necessary to occasionally take a larger amount on a single assured exposure, or in a single region, than it can carry. In such circumstances, it may safely do so by reassuring the excess risk.¹⁴² Although the primary purpose of reinsurance is to avoid too large a concentration of risk on one exposure, it may also be used to take advantage of the underwriting ability of the reinsurer, to transfer all or certain classes of substandard business, to reduce the drain on surplus caused by writing new business, to stabilize the overall mortality experience of the ceding company, and, for new companies, to obtain advice and counsel on underwriting matters, rates and forms.

141. Ibid
142. Ibid

Reassurance arrangements exist in various forms. They can be classified either on the basis of whether the reinsurer is bound to accept the reassurance offered under the arrangement (facultative or automatic),¹⁴³ or on the basis on which the losses are to be distributed between the reinsurer and the ceding company (excess, quota-share, or catastrophe).¹⁴⁴

a) Facultative Reassurance:

Under this arrangement, each risk is underwritten by the reinsurer separately at the time it is incurred. When the insurer receives an application for a policy for an amount above its net line (retention), it negotiates with the reinsurer for the transfer of the amount over and above its retention. Copies of the proposal forms, medical reports, etc., are sent by the ceding company to the reinsurer who is not bound to accept the business. If the reinsurer accepts the business, the same terms as those between the assured and insurer will govern the contract.

b) Automatic Reassurance:

Under this arrangement, the insurer binds itself to cede some portion of the business it writes according to terms set up in the reassurance treaty, and the reinsurer binds itself to accept such cessions. The treaty usually specifies the amount of business that must be ceded. The excess business, if any, may be facultatively ceded to another reinsurer.

c) Excess-of-Loss Reassurance:

This arrangement commits the reinsurer to pay part of a claim after, and only after, the ceding company's coverage has been used completely, that is, only those losses in excess of a specified amount and up to a predetermined limit are met

143.
144.

by the reinsurer.

d) Quota share or pro-rata reinsurance:

This binds the reinsurer to pay a stated fraction of every loss, regardless of its amount. This form of reinsurance entails that the reinsurance company must participate in each and every loss settlement. It is rarely used except by new and small assurance companies who do not want their growth and development to involve too much a strain on their financial resources.

e) Catastrophe reinsurance:

This arrangement is designed to protect the assurance company if its aggregate losses (all assured losses less reinsurance recoveries of other sorts) caused by a single peril exceed a specified amount. The reinsurer is then liable up to a certain amount specified in the contract. This arrangement permits the assurer to recover if, even though the loss to any particular assured were small, many assureds were involved in the same event.

Whichever of these arrangements are used, the basic aim is to permit the assurer to "write a maximum amount of insurance, and at the same time to protect it from loss due to concentration of amounts of insurance exposed to single occurrences".¹⁴⁵

2.8.4

LOSS SETTLEMENT

The policy will usually state three things in connection with payment of the policy proceeds:

- i) When the payment must be made;
- ii) To whom the payment must be made; and
- iii) The sum to be paid.¹⁴⁶

a) Time of payment:

The life assurance policy usually states that the assurance company will pay the policy proceeds upon the satisfactory proof of:

- i) The happening of the event or events on which the sum assured is to become payable;
- ii) The title of the person making the claim; and
- iii) The correctness of the date of birth of the life assured.

b) Person to receive the payment:

Depending on the type of policy and the circumstances surrounding each case, the policy proceeds may be made to one of a number of persons.

- i) The assured will receive the payment under an endowment policy upon his reaching the age stated in the policy. Also, in cases where the assured has taken out a policy on the life of another person, it is the assured who is entitled to the sum assured.¹⁴⁷
- ii) The assured's personal representatives are entitled to the sum assured upon the death of the assured.
- iii) In cases where the name of the beneficiary is stated in the policy, the policy proceeds will be paid to the said beneficiary.

146.
147.
Ivamy, E. R. H. General Principles of Insurance Law, London, Buttersworth & Co. (Publishers) Ltd., 1970, pp 387
Ivamy, Op Cit pp 108-14

iv) Where there are no named beneficiaries or assignees the sum assured will be paid to a trustee or executor of the deceased assured's estate.

On the whole, however, payment of the sum assured will be governed by the country's laws as they pertain to transfer of property, inheritance, bankruptcy, assignment, married women's property, and the powers of the court in such circumstances.

c) The Sum to be paid:

The sum to be paid will vary according to terms, and type of the policy. Only the sum assured will be paid in the case of non-participating policies, whereas the assured is entitled to bonuses on top of the sum assured in participating policies. The policy will invariably contain a provision concerning the surrender value. How and when this value is attained and mode of payment will also be outlined.¹⁴⁸

2.9 GOVERNMENT REGULATION

The life assurance business is strictly regulated in most countries. Huebner and Black note, "Few, if any, business institutions have been subjected to as strict and detailed government supervision as life and health insurance".¹⁴⁹ The reasons for this become obvious when one considers the nature of the assurance contract and its relationship to the very welfare of the family unit. Because of the similarity of life assurance

148.

Ibid

149.

Huebner, Op Cit pp 651

to other forms of insurance, very few regulation measures are meant for life assurance specifically, instead, most of them are directed at the whole insurance industry.

It is in this wider context that regulation is discussed in this section. Unique aspects that distinguish life assurance from other insurances will be pointed out as and when they arise.

2.9.1 RATIONALE FOR GOVERNMENT REGULATION OF INSURANCE

Many reasons have been advanced to explain the regulation of insurance.¹⁵⁰ These can, however, be grouped into four,¹⁵¹ namely:

- i) The importance of insurer solvency;
- ii) The unequal knowledge and bargaining power of the parties in insurance contracts;
- iii) The unique problem of insurance pricing; and
- iv) The promotion of social goals

a) Solvency:

The most important goal of insurance regulation is to ensure the solvency of the insurers. This will make the results of the insurance transaction more certain and therefore predictable. The essence of insurance is predictable results.

Since insurance is nothing more than a promise to be delivered in the future, this promise is worth no more than the company that stands behind it. An insolvent company

^{150.} Ibid
^{151.} Dorfman, Op Cit pp 366-9

will mean broken promises in the future. This will lead to serious problems for the insured. As is aptly put by Dorfman,

Houses destroyed with no funds to rebuild, liability suits with only personal assets available to satisfy judgements, or widows with dependent children and unfulfilled financial plans - these are the potential outcomes, of the failure of an insurer to perform its promise.¹⁵²

The question of solvency is made even more critical by the fact that life assurance companies, for example, are responsible for sizeable amounts of consumers' savings. This arrangement resembles that relationship between bank and depositor. Solvency is therefore important because untold miseries will occur, like those caused by bank failures, should the reverse be allowed to happen.

b)

Unequal knowledge and Bargaining Power:

Unlike the average insured the insurer has enormous advantages in technical expertise. The average policy, for example, is long and contains such words that are meaningful only to lawyers but not to the average insured. Again, insurance is an intangible commodity. The insured cannot evaluate its worth before it is too late to argue - after the loss has occurred. This imbalance has to be regulated so that it is not used to the detriment of the insured.

c)

Prices:

Pricing is critical in insurance because, on it, rests the ability of the insurer to meet its obligations. Cost is an important determinant of price. Unfortunately, in insurance, prices must be set before costs are fully known. The life

assurer, for example, may have to wait upwards of fifty years before it knows its costs. Thus if it overestimates costs, the insurer makes money. If it underestimates, ultimately the company becomes insolvent. In neither case is the insured's welfare maximized.

Most regulators allow the insurer to use whatever rate in pricing its products after filing the rate and the supporting statistics with the regulator. The regulator retains the right to disapprove any rates that have been filed - which will make the insurer to cease using the rates. This "open rating" system allows insurers to compete on prices while at the same time providing regulatory control.

d) Promoting Social Goals:

A certain amount of regulation is geared towards, for example, increasing the availability of insurance. Left alone, insurers through the process of selection, will make certain people to find insurance unavailable, or available at prohibitive rates. Some regulatory plans force insurers to accept some insureds that they would not have accepted voluntarily.

Towards this end of increasing the availability of insurance, most governments also run some forms of insurance plans. Many social security systems fall under these plans.

2.9.2 REGULATED AREAS

Government regulation is seen in most insurance activities in many countries. Examples of these activities include licensing of insurers, investment activities, legal reserves and surplus, regular audits, and rate regulation among many others.

a) Licensing Companies:

The power to license insurance companies (or revoke those licences) gives the regulatory body a lot of control over the insurance industry.¹⁵³ Before an insurance company is licensed to conduct business in any country, it is presumed that it would have satisfied that country's requirements as regards solvency and soundness of methods of operations.

b) Investments:

Because bad investments will jeopardize insurer solvency, and also because of the desire by most governments to utilize part of the enormous funds mobilized by insurance in some state ventures, strict limitations may be imposed on the investments an insurer is free to make. Life offices, for instance, are not normally allowed to make risky investments.

c) Legal Reserves:

In a bid to promote insurer solvency, regulations may seek to provide financial "cushions" or reserves beyond the insurer's current operating income. This is especially true for life assurers who are required to maintain policy reserves. Over time, the policy reserve plus interest less the annual mortality costs, when combined with future premiums should equal future benefits to be paid by the assurer.

d) Regular Audits:

Insurance companies, like other companies, are normally required to file annual returns with some government agency. These reports may be periodically verified by government representatives.

e) Rate Regulation:

This is usually not very strict in life assurance.¹⁵⁴ The government may only require that companies do not engage in price discrimination. Prescribing the mortality tables and interest assumptions that must be used in computing reserves, is a form of rate regulation. The insurer's rate structure must be proper before its premium income can be sufficient to generate the assets required to meet necessary reserves.

Put in a nutshell, insurance regulation "determines how and by whom insurance transactions may be made. Regulation is established by law, administered by public officials, and interpreted by courts when disputes arise".¹⁵⁵

154.
155.

Ibid
Dorfman, Op Cit pp 381

CHAPTER 3RESEARCH METHODS3.1 SOURCES OF DATA

While being basically exploratory in nature and aimed at documenting and evaluating life assurance practices (i.e. the life assurance industry) in Kenya, this study utilised two basic types of data - secondary and primary.

3.1.1 SECONDARY DATA

Secondary sources of data relating to background information were provided by books and articles located in the Main Library, University of Nairobi, and the Kenya Reinsurance Corporation Library. The card catalogues of both libraries were consulted to point out available literature. The study was initiated by reviewing this literature. The following headings were delineated for locating relevant material:-

- . The functions and importance of life assurance
- . Types of life assurances
- . Policies and innovations in life assurance
- . Marketing life assurance
- . Underwriting life assurance
- . Life assurance proposal forms
- . Reassurance
- . Settling life assurance claims
- . Government's regulation of life assurance
- . Participants in life assurance.

The secondary information gathered thus provided the investigative departure point for the preparation of the questionnaire.

Other secondary information was obtained from the Central Bureau of Statistics and the Registrar General's Office. This was used in the sampling of respondents.

3.1.2 PRIMARY DATA

The primary source of data for this study was a questionnaire survey that was supplemented by interviews with executives of selected insurance companies transacting life assurance business.

3.2 THE POPULATION

Being a survey of life assurance practices in Kenya, this study had, as its population of interest, all insurance companies underwriting life assurance in this country as at the beginning of this year, i.e. January 1, 1985. All insurance companies licensed to carry out life assurance business in Kenya are required by law to cede 25 per cent of their reinsurance business to Kenya Reinsurance Corporation (Kenya Re). A list of companies licensed to conduct life assurance business was obtained from the Registrar General's Office, and was updated - by cross-checking with monthly returns sent to Kenya Re by insurance companies and an insurance index appearing in the March 1985 issue of the "Finance" Journal - to give only those companies underwriting life assurance as at January 1, 1985. This list (see Appendix 3) gave a total of 19 companies directly writing life assurance business.

In compilation of this list, life assurance business was taken to include individual life, group life, endowments and annuities, and industrial life.

3.3

SAMPLE DESIGN

Since there was limited time allowed by the University - imposed deadlines and due to other external constraints, it was not possible to cover all the 19 companies in the survey. Again, the method adopted by the researcher - questionnaire and interview - meant that the survey of 19 companies within the available time would not be feasible.

Thus, the population was stratified using ownership and size as criteria for stratification. Current Kenyan laws require that all insurance companies must incorporate locally with at least $\frac{1}{3}$ of the equity owned by Kenyan citizens. A search through insurance companies' files at the Registrar General's Office revealed that life assurance companies, as is the case with all other insurance companies, are either local with more than 50 per cent of their equity held by Kenya citizens, or foreign with the majority of their equity held by companies incorporated in Britain, India or America (i.e. U.S.A., Canada and the Bahamas). Thus four categories of life assurance companies, based on ownership, were identified namely, Kenyan, British,¹⁵⁶ Indian and American.

156.

For ease of categorisation, two companies - one incorporated in France and another in South Africa - were included in British companies.

Annual premium income was also used to stratify life assurance companies. Prior discussions with executives from three companies writing life business and a search through the insurance companies' files at the Registrar General's office enabled three categories of life offices to be distinguished based on the size of their annual premium collections i.e. small companies (below Kshs. 15 million), medium-sized companies (Kshs. 15 million - Kshs. 30 million) and large companies (above Kshs. 30 million).

On these two classifications, twelve different types of life assurance companies were identified, but three categories were left blank after all companies had been assigned to the various possible categories (see Appendix 4). One company was randomly picked from the 9 filled categories to make up the sample of 9 companies that were surveyed in this study.

3.4

QUESTIONNAIRE PREPARATION AND INTERVIEW

The researcher opted to use both questionnaire and interview methods because of the following reasons:-

1. The questionnaire could get to some insurance executives that the researcher could not reach if the interview method alone was used. By delivering the questionnaire in advance and following it up later with the interview, the researcher provided the respondents time to look for the information required in the survey. Again, since various aspects

of life assurance were sought, the interview method alone would have entailed a series of sessions with various executives of each insurance company before getting all the information required. As in most companies sampled, the questionnaire was circulated to the various heads of departments who duly answered the questions pertaining to their areas of operation, and returned to the executive who was to be interviewed.

2. Following up the questionnaire with an interview reduced response mortality to zero. It also enabled the researcher to explain those parts of the questionnaire that were not clear to the respondent.

The limited time available for the study did not allow the pre-testing of the questionnaire. The initial drafts were, however, critiqued by members of the faculty in a seminar and by a Department of Business Administration Visiting Professor before the final draft was produced.

The questionnaire (see Appendix 2), designed to provide both quantitative and qualitative data, consisted of five sections aimed at answering three of the sub-questions raised in the problem definition. The five sections were used to collect data as follows:-

Section 1 - data on policies and other services offered by life assurance companies to clients.

Section 2 - data on the marketing of life assurance

Section 3 - data on the underwriting of life assurance

Section 4 - data on loss settlement

Section 5 - data on reinsurance

The questionnaire consisted of both closed - and open-ended questions. Spaces for any informative responses from the respondents were also provided.

3.5

PRIMARY DATA COLLECTION PROCESS

The nine life assurance companies were contacted initially by telephone. The research was explained to the receptionists who, at their discretion, put the researcher through to relevant executives - invariably in the life department. After fully explaining the purpose of the project, and what it covered, on telephone, the researcher delivered the questionnaire to the life executive and made an appointment for a subsequent personal interview. These follow-up interviews were used by the researcher to explain questions that were not clear, for one reason or another; solicit answers for skipped questions and retrieve the duly answered questionnaires.

The covering letter (see Appendix 1) was attached requesting the respondent to participate in the survey. It was attached only to those questionnaires that were left with receptionists or secretaries for subsequent forwarding to the life executive who the researcher could not see personally at the time of delivering the questionnaire.

The questionnaires were delivered to, answered by, and received from the executives of the nine companies between

May 7 and May 24, 1985. A breakdown of the life executives was:- three Managers of the Life Department, one Assistant Branch Manager, one Marketing Manager, one Technical Manager and three Assistant Executives in life departments. Each executive requested for a copy of the research findings.

CHAPTER 4

DATA ANALYSIS AND PRESENTATION OF FINDINGS4.1 DATA ANALYSIS

The primary data in this study is summarized and presented by use of tables. Whereas percentages or proportions are utilised in most of the tables, in some, the findings are rank-ordered. This being an exploratory study, no attempt has been made at drawing statistical inferences from the findings. Statistical validity will, however, be necessary in studies that may be conducted following the recommendations of this study.

4.2 PRESENTATION OF FINDINGS

Five subquestions were raised in the statement of the problem being researched by this study. The first and fifth of those questions were answered from the secondary data collected in the course of this study, and they are highlighted in the discussion in Chapter 5. Presented in this Chapter, then, are the findings that go toward answering the second through the fourth subquestions raised at the beginning of this study. Five subsections have been used here to present the findings i.e. services offered by life assurers to their clients; the marketing of life assurance; underwriting life assurance; loss settlement; and general considerations.

4.2.1 SERVICES OFFERED TO CLIENTS

Three issues were considered here as they relate to the products offered by the 9 insurance companies, surveyed in this study, to their clients.

a) Assurances Offered

Each of the respondents offered two or more of the various forms of life assurance available today, but none offered the whole range of life assurances. As shown by Table 1, all the respondent companies transacted individual life assurance (in its various term and whole life policy forms). 77.8% (7) of the respondents transacted group life assurance, 88.9% (8) transacted annuities and endowments, 77.8% (7) handled credit life assurance, and only 11.1% (1) of the respondent companies handled industrial life assurance. In addition, 66.7% (6) of the respondents handled pensions although pension schemes are not a pure form of life assurance.

TABLE 1: TYPES OF ASSURANCES OFFERED BY RESPONDENTS TO THEIR CLIENTS

Type of Assurance	Number of Companies	Proportion of Companies
Group Life	7	77.8%
Individual Life	9	100.0%
Industrial Life	1	11.1%
Credit Life	7	77.8%
Annuities & Endowments	8	88.9%
Pensions	6	66.7%

N = 9

Upon ranking these forms of assurance in their importance as premium-earners (See Table 2), 55.6% (5) respondents reported that individual life was their chief line, 22.2% (2)

reported that group life was their major premium-earner, 11.1% (1) reported that industrial life was their major line, and 11.1% (1) considered pensions as their major line. Credit life and annuities and endowments were neither ranked first nor second by any of the respondents.

TABLE 2: PREMIUM IMPORTANCE OF THE ASSURANCES FOR THE RESPONDENT COMPANIES

Type of Assurance	No. of times (and percentage) ranked as 1st in importance	No. of times (and percentage) ranked as 2nd in importance	No. of times (and percentage) ranked as 3rd in importance
Group Life	2 - 22.2%	4 - 44.4%	1 - 11.1%
Individual Life	5 - 55.6%	3 - 33.3%	1 - 11.1%
Industrial Life	1 - 11.1%	0 - -	0 - -
Credit Life	0 - -	0 - -	2 - 22.2%
Annuities and Endowments	0 - -	0 - -	2 - 22.2%
Pensions	1 - 11.1%	2 - 22.2%	3 - 33.3%
TOTALS	9 - 100.0%	9 - 99.9%	9 - 99.9%

b) Riders

Only 11.1% (1) of the respondents did not attach any riders to the policies they issued to their clients. 88.9% (8) of the respondents reported that they attach the Accidental Benefit rider to the policies they issue. 44.4% (4) attach the Additional Level Term rider, 22.2% (2) attach the Additional Income rider, and only 11.1% (1) of the respondents attach the Guaranteed Insurability rider to their policies as is shown by Table 3.

TABLE 3: RIDERS OFFERED TO CLIENTS

Type of Rider	Number of Companies Offering the Rider	Proportion of Companies
Accidental Benefit	8	88.9%
Additional Level Term	4	44.4%
Additional Income	2	22.2%
Guaranteed Insurability	1	11.1%
No Rider Offered	1	11.1%

N = 9

c) Other Services

Apart from issuing policies and riders to their clients, all the respondents reported that they provided additional services to their policyholders. 77.8% of the respondents give short term policy loans to their clients (See Table 4). 55.6% (5) respondents give mortgage loans, 88.9% (8) of the respondents allow participation in profits, and 88.9% (8) respondents give insurance advice to their clients.

TABLE 4: ADDITIONAL SERVICES OFFERED BY ASSURERS TO THEIR CLIENTS

Service	Number of Companies giving the service	Proportion of the Companies
Short-Term Policy Loans	7	77.8%
Mortgage Loans	5	55.6%
Participation in Profits	8	88.9%
Insurance Advice	8	88.9%

N = 9

4.2.2. THE MARKETING OF LIFE ASSURANCE

This section presents the findings for four aspects, about the marketing of life assurance, investigated in this study. These aspects include: the middlemen used in the marketing process; their compensation and training; the categories of people who buy life assurance products; methods used to get new business; competition in life assurance; and the problems experienced in marketing life assurance.

a) People involved in selling Life Assurance

Two categories of life assurance companies were identified according to the effort they expended in the marketing of their products. 22.2% (2) of the respondents could be termed low profile companies i.e. they did little or no marketing at all. One of these low profile companies reported that it operated a closed fund i.e. it did not transact new business and therefore, it did not need to market its products. The other respondent in the category reported it adopted a deliberate low profile strategy. It transacted new business but relied exclusively on brokers to acquire this new business. The second category is that of high profile companies i.e. those who actively marketed their products but with varied degrees of aggressiveness. Table 5 shows the various categories used in selling life assurance.

TABLE 5: PEOPLE INVOLVED IN THE SELLING OF LIFE ASSURANCE

Type of Middlemen	Number of Companies	Proportion of Companies
Employees of the Company	5	55.6%
Dependent Agents	6	66.7%
Independent Agents	6	66.7%
Brokers	8	88.9%
None of the Above	1	11.1%

N = 9

All the respondents (88.9%) who reported that they were transacting new business reported that they used brokers in getting their products to prospective clients. 55.6% (5) respondents reported that they also used their employees and officers in getting new business but they all reported also that new business acquired this way was minimal. 66.7% of the respondents indicated that they use captive or dependent agents i.e. agents who represented them exclusively - without sending business to other companies. An equal proportion, 66.7% of the respondents also indicated that they use independent agents i.e. agents who could represent more than one insurance company. Like the business brought in by employees, business acquired through independent agents was also reported to be minimal.

Compensation through commissions is the most popular method used in remunerating the sales force. It is utilised by all the respondents (88.9%) who write new business. Salary and salary-plus-commissions are not used by any of the respondents as shown by Table 6.

TABLE 6: COMPENSATION METHODS USED BY RESPONDENT COMPANIES

Compensation Methods	Companies Utilising it	Proportion of Companies
. Salary	0	0%
. Commissions	8	88.9%
. Salary and Commission	0	0%
. None of the above	1	11.1%
TOTALS	9	100.0%

It was established that except for 11.1% (1) of the respondents, all the companies surveyed in this study conduct initial training programs to orient the sales force to the company's products.

Subsequent seminars (revitalisation courses) are run by 77.8% (7) of the respondent companies to motivate, and build the careers of their sales people in the field of life assurance marketing.

b) Types of Clients

The respondents were asked to list the various categories of people who constituted their clientele for the various lines of life assurance. Further, they were requested to rank these categories of clients according to their importance in terms of premium volumes. 44.4% (4) of the respondents did not answer this question. 33.3% (3) of the respondents provided the lists but reported that it was difficult unless broad generalisations are used, to categorise and rank these clients. However, 22.2% of the respondents reported that group assurance was mostly purchased by private organizations for their employees; individual

life was purchased by businessmen (and businesswomen), employees of private firms, teachers, and civil servants; Credit life was taken by finance houses and banks; and pensions were taken by private organizations and parastatals.

c) Getting new business and competition

As Table 7 shows, the majority of the respondents, 77.8% (7), relied on the personal contacts and solicitations of their agents and employees with prospective clients in getting new business. The companies that also advertised in newspapers, magazines, journals and trade papers made up 44.4% (4) of the respondents. 22.2% of the respondents reported that they used such techniques as distributing printed T-Shirts, handkerchiefs, and car-stickers in their advertising effort. 1 respondent (11.1%) reported that it

TABLE 7: METHODS OF GETTING NEW BUSINESS

Method	Number of Companies	Proportion of Companies
1. Sponsoring programmes on TV and/or radio	1	11.1%
2. Advertising in newspapers, magazines, journals, etc.	4	44.4%
3. Printing and distributing T-Shirts, handkerchiefs, car-stickers etc.	2	22.2%
4. Personal solicitations of agents and employees	7	77.8%
5. Relying exclusively on brokers	1	11.1%
6. Other methods	1	11.1%
7. None of the above	1	11.1%

had been sponsoring programmes in the mass media (radio), but this had been stopped by the time this study was conducted. An equal proportion of respondents (11.1%) reported that it relied exclusively on brokers without using any other supplementary methods, except on employees who brought in some minimal business, to get new business.

11.1% of the respondents also reported that their advertising programme included other methods. The "other" methods reported here consisted of erecting passenger shelters at bus-stops. These shelters naturally carried huge posters advertising the company's products. Finally, 11.1% (1) of the respondents reported that it did not use any method to get new business, that is, it operated a closed fund.

77.8% of the respondents reported that they found competition rather stiff in the marketing of life assurance. 11.1% of the respondents did not face any competition in marketing life assurance because it operated a closed fund. The remaining respondents (11.1%) did not find competition stiff at all (See Table 8).

TABLE 8: ATTITUDES ON COMPETITION IN LIFE ASSURANCE MARKETING

Opinion	Number of Companies	Proportion of Companies
. Competition is stiff	7	77.8%
. Competition is not stiff	1	11.1%
. There is no competition	1	11.1%
TOTALS	9	100.0%

Whereas no reason was given by the respondents (11.1%) who did not find competition in marketing life assurance to be tough, the respondents who found competition to be tough reported that the basic reason for this was the similarity of their policies to those sold by their competitors.

A number of companies have effectively met this competition and grown into industry leaders. As shown in Table 9, 33.3% of the

TABLE 9: LIFE ASSURANCE INDUSTRY LEADERS

Company	No. of Companies and %, giving it 1st rank	No. of Companies and %, giving it 2nd rank	No. of Companies and %, giving it 3rd rank
American Life Insurance Company	4 - 44.4%	2 - 22.2%	0 - -
Kenya National Assurance Company	2 - 22.2%	3 - 33.3%	0 - -
Kenindia Assurance Co.	0 - -	0 - -	3 - 33.3%
Insurance Company of East Africa	0 - -	0 - -	2 - 22.2%
Jubilee Insurance Co.	0 - -	0 - -	1 - 11.1%
Pan Africa Insurance Co.	0 - -	1 - 11.1%	0 - -
No responses	3 - 33.3%	3 - 33.3%	3 - 33.3%
TOTALS	9 - 100.0%	9 - 100.0%	9 - 100.0%

respondents did not give any answer upon being asked to indicate which companies occupied the three top positions in the life assurance industry. American Life Insurance Company (ALICO) was ranked 1st by 44.4% of the respondents. 22.2% ranked it 2nd and none ranked it 3rd. Kenya National Assurance Company was ranked by 22.2% and 33.3% of the respondents as 1st

and 2nd respectively. None ranked it 3rd. 33.3%, 22.2% and 11.1% of the respondents ranked Kenindia, Insurance Company of East Africa and Jubilee respectively as 3rd, and 11.1% of the respondents put Pan Africa Insurance Company in 2nd position. A number of reasons were given for these rankings. However, no two respondents agreed on any one of these reasons.

d) Problems in the Marketing of Life Assurance

Except for the respondents who reported that they have adopted a low profile in the marketing of their products (22.2%), all the other respondents (77.8%) reported that they experienced some problems in marketing their products. 66.7% reported that their problems are related to the ignorance of the general public about what life assurance was (See Table 10).

TABLE 10: PROBLEMS EXPERIENCED IN MARKETING ASSURANCE

Problem	Number of Companies	Proportion of Companies
• Problems connected to the ignorance of the public about life assurance	6	66.7%
• Lack of committed agents	2	22.2%
• Problems in collecting premiums	2	22.2%
• No problems experienced	2	22.2%

22.2% reported that their problem was lack of agents committed to the company. Companies with this problem were small companies as per the categorisation of assurance companies on the basis of premium volume at the sampling stage of this study. An equal proportion of respondents (22.2%) reported that they experienced problems in the collection of premiums also. These included the remittance of premiums and collecting the same in instances where the check-off; or salary-stop-order, system was used, especially where the remitters were big organizations with hundreds of their employees as clients of the assurer in question.

4.2.3 UNDERWRITING LIFE ASSURANCE

Presented in this section are the findings of this study as regards: the information sought by the assurance company about the proposer; the factors that determine the premiums charged; the provisions of the policies issued and the factors that make policyholders to surrender their policies or allow them to lapse; and reinsurance arrangements used by respondents.

a) Information Sought about the Proposer

On being asked about what kind of information they sought to know about a proposer before being in a position to assess the risk, 11.1% of the respondents neither gave an answer nor provided a specimen proposal form; an equal proportion, 11.1%, did not provide a specimen proposal form but reported that the information sought included details of the life to be assured, details of the policy required, occupation and habits of the proposed life assured, the medical history (both personal and family) of the life to be assured, and his previous assurance history.

As shown by Table 11, 77.8% of the respondents did not give any answer but instead provided specimen proposal forms which were self-explanatory. The details of these proposal forms were fairly

TABLE 11: RESPONSES TO QUESTION ABOUT INFORMATION SOUGHT BY RESPONDENTS ABOUT PROPOSERS

Response	Number of Companies	Proportion
• Neither answered nor gave specimen proposal forms	1	11.1%
• Answered but gave no specimen proposal forms	1	11.1%
• Gave specimen proposal forms but did not give an answer	7	77.8%
TOTALS	9	100.0%

similar and covered such areas as: the personal details of the proposed life assured, the details of the policy required, the previous assurance history of the proposer, whether the assured intended to engage in such hazardous activities as aviation, the proposer's family's medical history, the habits of the proposer, his usual medical attendant, the height and weight of the proposer and whether he was in good health, and the declaration that the answers provided would form the basis of the assurance. 28.6% (2) of the specimen policies received also included a section to be filled by female proposers. This section sought to get information concerning health factors that are peculiar to women.

In addition to the answers solicited by the proposal form the respondents who provided specimens of their proposal forms reported that a medical examination of the proposer by a recognised medical doctor was insisted upon if the sum assured requested exceeded a specified amount. This amount varied with the assurance company.

b) Factors that determine the premium charged

All the respondents reported that the basic premium rate that

TABLE 12: FACTORS AFFECTING THE AMOUNT OF LOADING OR REJECTION OR RISK

Factor	Number of Companies	Proportion
. Occupation	9	100.0%
. Medical History	9	100.0%
. Type of Cover (Policy) wanted	9	100.0%
. Past Assurance History	9	100.0%
. Hobbies and Interests	9	100.0%
. Weight	9	100.0%
. Height	9	100.0%
. Residence	1	11.1%

N = 9

they charged was already predetermined on the basis of age and sex. The information gathered about the proposer was used to establish whether the risk was standard, and therefore accepted at the basic rate, or substandard and therefore accepted at a loaded premium, or postponed, or declined.

The factors reported by the respondents to be the ones used in establishing whether or not a risk was substandard, and thus determining the amount of loading if the risk is accepted, are presented in Table 12.

All (100%) respondents reported that the proposer's occupation, medical history, past assurance history, hobbies and interests, weight, and height, and the type of policy wanted will be used in loading or rejecting the risk. 11.1% of the respondents also included the proposer's residence among the factors used in loading the premium.

c) Provisions of the policies issued

66.6% (6) of the respondents provided specimens of the policies they issued for individual life assurance. 11.1% provided specimens of the policies they issued for group life. No specimen policies were provided for industrial life or annuities as is shown by Table 13.

TABLE 13: SPECIMENS OF POLICIES PROVIDED BY RESPONDENTS

Line of Assurance	Number of Companies	Proportion
. Individual Life	6	66.7%
. Group Life	1	11.1%
. Industrial Life	0	0%
. Annuities and Endowments	0	0%

N = 9

The specimen policies of individual life were fairly similar in their provisions. This was in line with the literature on policy provisions. An analysis of the specimen policies revealed that each had:- a heading, recitals, statement of the contract,

schedule, signatures, and general conditions and privileges. 16.7% (1) of the specimen policies had, in addition, tables of the non-forfeiture values (cash values) that are due to the policyholder should he surrender the policy at any one time.

d) Factors influencing the surrender or lapsing of policies

In giving some of the major reasons that made policyholders to surrender their policies or allow them to lapse, 77.8% (7) of the respondents reported that one of the major reasons was that after effecting the policy, most of the policyholders who allowed their policies to lapse, or surrendered them, discovered that they could not afford the premium payments as they had thought initially, (See Table 14).

TABLE 14: MAJOR REASONS CAUSING SURRENDERS AND LAPSING OF POLICIES

Reason	Number of Companies	Proportion
1. After effecting the policy, the assured finds that he cannot afford the premium payments	7	77.8%
2. Lack of proper explanation to the policyholder by the agent when the policy was sold initially	6	66.7%
3. Dissatisfaction by the policyholder with the benefits offered by the assurance company	0	0%
4. Dissatisfaction by the policyholder with the way the company services the policy	0	0%
5. Other reasons	4	44.4%

N = 9

66.7% reported that another reason causing lapses and surrenders of policies was lack of proper explanation to the policyholder by the agent when the policy was initially effected.

Dissatisfaction of the policyholder with the benefits offered by the company and with the way the company serviced the policy were not considered by any respondent to be among the reasons behind the surrender of policies or their lapsing. 44.4% of the respondents reported that other reasons also made policies to be surrendered or lapsed. The other reasons identified by the respondents included:-

- i) Unforeseen problems that cropped up later, requiring the policyholder to have money.
- ii) In times of high inflation, policyholders are tempted to cash their policies for present use rather than wait for what will be little at maturity.
- iii) Life assurance, like other types of insurance, is based on promises about the future, without immediate tangible results. Impatient policyholders will not wait for this "hazy future" but will cash in their policies for immediate use instead.

e) Reassurance arrangements used by respondents

As shown by Table 15.A., all respondents, except 11.1%, reported that they used either facultative or automatic reassurance or both. 55.6% reported that they used facultative reassurance only and 11.1% used automatic reassurance only. 22.2% used both facultative and automatic arrangements. 11.1% reported that they did not use any reassurance method because they operated a closed fund.

Of the specific types of reinsurance agreements, 33.3% of the respondents reported that they used Quota-share reinsurance, 66.7% used Surplus-treaty, none used Excess-loss, 11.1% used other methods and 11.1% did not use any reinsurance at all.

TABLE 15: REASSURANCE ARRANGEMENTS USED BY RESPONDENTS

A:

Type of Reassurance	Number of Companies	Proportion
. Facultative Reassurance Only	5	55.6%
. Automatic Reassurance Only	1	11.1%
. Both Facultative and Automatic	2	22.2%
. No Reassurance needed	1	11.1%
TOTALS	9	100.0%

B:

Specific type of Reassurance	Number of Companies	Proportion
. Quota-Share	3	33.3%
. Surplus-Treaty	6	66.7%
. Excess-Loss	0	0%
. Other	1	11.1%
. None	1	11.1%

Some respondents, 22.2%, used more than one specific reinsurance arrangement. The "other" specific type of reinsurance reported to be used by 11.1% of the respondents was Catastrophe reinsurance (See Table 15B).

As regards the markets on which the respondents placed their reinsurance business, 11.1% reported that they did not place any reinsurance business on any market at all (See Table 16). 88.9% reported that they were required by law to place 25% of their reinsurance business with Kenya Re. On top of this, they were required to cede 5% of their reinsurance business to Africa Re which has a regional office in Nairobi.

In addition, 55.6% of the respondents reported that they placed the bulk of their reinsurance business on the London market, 33.3% placed some on the Zurich market, 22.2% placed some on the Bermuda market and an equal proportion, 22.2% placed some reinsurance business on the Munich market. 11.1% of the respondents reported that they also placed reinsurance business on the Wilmington (U.S.A.) market. Except for 12.5% (1), all the respondents who reassured their risks placed it on more than 2 markets each.

TABLE 16: REASSURANCE MARKETS USED BY RESPONDENTS

Market	Number of Companies	Proportion
• Nairobi (Kenya Re and Africa Re)	8	88.9%
• London	5	55.6%
• Zurich, Switzerland	3	33.3%
• Bermuda	2	22.2%
• Munich, West Germany	2	22.2%
• Wilmington, U.S.A.	1	11.1%
• No reinsurance placed on any market	1	11.1%

4.2.4 LOSS SETTLEMENT

Aspects of loss settlement investigated in this study, findings about which are presented in this section, include: conditions that must be fulfilled by a policyholder or his representatives before and after a claim has been lodged; proportion of claims honoured; taken for arbitration; or repudiated by the respondents in any one year; and the problems experienced by the respondents in loss-settlement.

- a) Conditions to be fulfilled by the policyholder or his representatives

Before a claim could be honoured, several conditions must be fulfilled by the claimant. These include, the notification of the loss; proof of loss; proof of the title of the claimant - the admission of age; and the production of the policy document. As Table 17 shows, 77.8% of the respondents required to be notified, within a specified time, of the occurrence of the loss.

TABLE 17: CONDITIONS TO BE FULFILLED BY CLAIMANTS

	Number of Companies	Proportion
. Notification of the loss	7	77.8%
. Proof of loss	8	88.9%
. Proof of title of claimant	8	88.9%
. Admission of age	5	55.6%
. Production of policy document	6	66.7%
. Respondents who did not provide any answer about conditions	1	11.1%

88.9% of the respondents (i.e. all the respondents who provided an answer for the question seeking this information) reported that they also required proof of loss and the title of the claimant. 55.6% required the admission of age of the life assured, and 66.7% also required the production of the policy document. These findings tie in with the literature on this issue. 11.1% of the respondents did not provide any answers on this issue.

b) Proportion of claims honoured, repudiated, or taken for arbitration

As Table 18 shows, 11.1% of the respondents reported that they have had no claim so far and therefore they have neither honoured, disclaimed, nor taken any claim for arbitration. 44.4%

TABLE 18: CLAIMS HONOURED, TAKEN FOR ARBITRATION OR REPUDIATED BY RESPONDENTS IN ANY ONE YEAR

Action	Number of Companies	Proportion
1. Honoured	. 100%	4 44.4%
	. More than 99% but less than 100%	3 33.3%
	. Between 98-99%	1 11.1%
2. Arbitration	. None (0%)	7 77.8%
	. Less than 1%	1 11.1%
	. Between 1-2%	0 0%
3. Repudiated	. None (0%)	4 44.4%
	. Less than 1%	4 44.4%
	. Between 1-2%	0 0%
4. No claims so far	1	1 11.1%

reported that since they started operations, they have honoured all of the claims lodged. 33.3% reported that on the average, they honoured more than 99% of the claims lodged, and 11.1% reported that they had honoured between 98 - 99% of the claims lodged.

77.8% reported that they did not take any claim for arbitration in an average year. 11.1% reported that they took less than 1 per cent of the claims lodged, for arbitration. 44.4% reported that they have so far not repudiated any claim, and an equal proportion, 44.4%, reported that they repudiated less than 1 per cent of the claims lodged.

The respondents who reported that they have on occasion been forced to repudiate some claims gave the following as reasons behind their action:

- i) Lack of title of the claimant
- ii) Concealment and misrepresentation of material facts by the assured
- iii) Lack of knowledge of the benefits of the contract by the claimant
- iv) Non-fulfilment of claim requirements by the claimant
- v) Non-notification of loss within the contestable period
- vi) Lack of cover at the time of loss.

Except for reasons ii, iv and vi, which were reported by all 44.4% of the respondents, no one reason was given by more than one respondent.

c) Problems experienced by respondents in loss-settlement

All respondents, apart from the 11.1% which had had no claim at all by the time of this study, reported that they experienced problems in loss-settlement (See Table 19).

TABLE 19: PROBLEMS IN LOSS-SETTLEMENT FACING RESPONDENTS

Problem	Number of Companies	Proportion
. Delays by administrators of assured's estate	4	44.4%
. Delays by the Exchange Control Department for Settlement of claims outside Kenya	1	11.1%
. Disputes among legal representatives of the policyholders (intestate deaths)	4	44.4%
. Failure of assured to inform their next-of-kin about existence of policy	2	22.2%
. No problem experienced	1	11.1%

N = 9

It was reported by 44.4% of the respondents that some of the problems they experienced in loss-settlement were caused by delays in fulfilling the conditions necessary in loss-settlement by the administrators of the assured's estate. An equal proportion, 44.4% reported that disputes among the representatives of the assured, especially in intestate deaths, held up the loss-settlement process. 11.1% reported that the Exchange Control Department of the Central Bank, severely constrained their settlement effort in cases that involved the

exportation of policy proceeds to recipients outside Kenya. 22.2% of the respondents reported that in some cases, the policyholder failed to inform their next-of-kin of the existence of the policy. This created problems after death since claims may not be submitted within the contestable period.

4.2.5

GENERAL CONSIDERATIONS

To round off the primary data search, three issues were investigated by this study and the findings are presented hereunder. These aspects included: associations in the industry; the training that respondent companies gave to their employees; and what can be done to improve life assurance in this country.

a)

Associations in the industry

In answering what life assurance associations the respondent companies, or their officers, belonged to, 100% of the respondents reported that they were members of the Life Offices Association. 11.1% also reported that they belonged to the Life Registry Association, and 22.2% reported that they were also members of the Council of Kenya Insurers (COKI), as shown by Table 20. Other than stating that the associations cater for the welfare of, and act as the spokesmen for their members, no respondent disclosed the functions of these associations.

TABLE 20: ASSOCIATIONS IN THE LIFE ASSURANCE INDUSTRY

Association	Number of Companies Mentioning It	Proportion
Life Offices Association	9	100.0%
Life Registry Association	1	11.1%
Council of Kenya Insurers	2	22.2%

N = 9

b) Training of the Employees

In addition to the on-the-job training that all respondents gave to their employees various other training programmes are arranged by the respondents for their salaried employees (excluding agents). These are highlighted in Table 21.

TABLE 21: PROFESSIONAL TRAINING FOR LIFE ASSURANCE PERSONNEL

Training	Number of Companies	Proportion
. Chartered Insurance Institute Courses (ACII & FCII)	9	100.0%
. KASNEB - organized CPA and CPS courses	4	44.4%
. Insurance Courses organized by ITEB	6	66.7%
. Life Offices Management Association (LOMA)	1	11.1%

N = 9

100% of the respondents reported that they encouraged their employees to pursue the Associateship (ACII) and Fellowship (FCII) professional training that are offered by the British Chartered Insurance Institute. 66.7% of the respondents involved their employees in short insurance training programmes run by the Insurance Training and Education Board (ITEB). 44.4% reported that they encouraged their employees, especially those who are not in technical departments like underwriting, to pursue the CPA and CPS professional qualifications that are organized by KASNEB. 11.1% also encouraged their employees to pursue the American LOMA training.

c) Improvement of the Life Assurance Business

The answers from the respondents about what can be done to improve life assurance business in Kenya are given in Table 22.

TABLE 22: RESPONDENTS' SUGGESTIONS ABOUT IMPROVING LIFE ASSURANCE BUSINESS IN KENYA

Suggestion	Number of Companies	Proportion
. Promote public awareness about the existence, nature, purpose, and necessity of assurance	8	88.9%
. Introduce insurance in schools and colleges as a subject	3	33.3%
. Government to make some lines of assurance compulsory as in motor vehicle insurance	4	44.4%
. Insurance companies to open more branches in the rural areas	2	22.2%
. Government- and industry-organized workshops to be held in rural areas	2	22.2%
. Agents to learn all salient features of the policies they sell	3	33.3%
. Government to increase the tax-deductible element in premiums (insurance relief)	2	22.2%

N = 9

88.9% of the respondents subscribed to the view that the awareness of the public about the existence, nature, purpose and necessity of life assurance should be increased. 33.3% were of the opinion that insurance should be introduced as a taught subject on the curriculum of secondary schools and colleges.

44.4% felt that the Government should make some forms of life assurance compulsory in the same way as third party risks insurance in motor vehicle insurance, 22.2% felt that workshops organized by the Government in conjunction with the life assurance industry should be held in rural areas to increase insurance exposure there.

An equal proportion, 22.2%, reported that the Government should increase the tax-deductible element in premiums (insurance relief in income tax) in order to motivate more people to purchase life assurance. 22.2% also felt that insurance companies should be encouraged to open more branches throughout the country to increase public awareness on insurance. Finally, 33.3% were of the opinion that agents should learn and thoroughly grasp the salient features of the policies they sold in order to ensure that they did not misadvise policyholders.

4.3 CONCLUSION

The foregoing findings have brought to light a number of issues about life assurance practices, as applied by the selected respondents, in Kenya. In some specific areas, these findings tie in with the literature available on the area in question. In other areas, however, interesting deviations from the literature were reported. Both aspects are discussed in the next Chapter i.e. Chapter 5.

CHAPTER 5

CONCLUSION

Being the final chapter, this chapter summarizes and discusses the findings of this study in accordance with the questions raised in the statement of the problem of this study. Also highlighted in this chapter are the limitations of the study and recommendations for further research.

5.1 SUMMARY AND DISCUSSION

Five subquestions were raised in the problem being investigated in this study. These subquestions sought to identify what constitutes the life assurance industry in Kenya, what services are offered by the industry to clients how these services are marketed, what unresolved problem areas exist in the industry and what can be done about them, and what role the Government has played in life assurance in Kenya.

5.1.1 THE LIFE ASSURANCE INDUSTRY IN KENYA

The life assurance industry in Kenya is currently made up of 19 insurance companies¹⁵⁷ directly writing life assurance; hundreds of agents, the majority of whom are dependent (captive) agents; about 26 brokers¹⁵⁸, two reinsurance firms; and the Life Offices Association.

There is no pure life office - one writing life assurance only - in Kenya today. Even traditional life companies like Alico and British-American are also involved in general business. Except for only one, all companies writing life assurance are joint stock

157.
158.
As per available records at the Registrar General's Office
See Khamala J. N., The Origin and Growth of Modern Insurance
in Kenya Op Cit pp 11-2

companies. Two of them, Pan Africa Insurance and Jubilee are public companies whose stock is quoted on the Nairobi Stock Exchange. The remaining 16 companies writing life assurance are private companies with varied origins and ownership. One company, Kenya National Assurance, is wholly Government-owned. Another, Co-operative Insurance Services Limited, is owned by Co-operative Societies in Kenya. Kenya Commercial Insurance Corporation Limited is owned by ICDC (a parastatal body), Minet-ICDC (a joint venture between ICDC and the London Minet Group), and Heri Limited. Four other companies are local firms, i.e. the majority of their shares are held by Kenyan citizens.

The rest of the companies are subsidiaries of foreign companies (American, British, Indian and French) although they have all been incorporated locally with at least one third of their equity held by Kenya citizens as required by law.

Old Mutual is the only company in the industry that is not a joint-stock company. It is a mutual company that is a subsidiary of a company incorporated in South Africa.¹⁵⁹ Together with Lion of Kenya, they are the only companies in the industry that do not transact new business, instead, they operate "closed funds".

The majority of the agents in the industry are dependent (captive) agents i.e. those exclusively representing one insurance company. They solicit for business from prospective clients, and then place it with the insurance companies they represent. They are paid in commissions which are usually some percentages of the premiums paid on policies they helped to effect.

The industry also consists of about 26 brokerage firms, the majority of which are local companies.¹⁶⁰ However the bulk of the assurance business (especially big accounts as group policies, pensions, etc.) is handled by such foreign brokers as the Minet Group, Hogg Robinson, Clarkson Notcutt, Sedgwick, etc. Brokerage business involves stiff competition. Because of this, the number of firms in business keeps fluctuating over time - with some dropping out and others in. Unlike agents who are representatives of insurance companies, brokers are, ideally, representatives of the assureds. They solicit business from prospective assureds and place it with the assurance company offering the best terms to the assured. There are, however, brokers who also represent only one company or a few. Brokers are paid in commissions that they usually deduct from premiums collected before remitting the balance to the insurance company.

Two reinsurance firms operate in the life assurance industry in Kenya - Kenya Reinsurance Corporation (Kenya Re) and Africa Reinsurance Corporation (Africa Re). Kenya Re receives a mandatory 25 per cent of all reinsurance business from direct writing companies (insurers). Africa Re, following the agreement signed by member states of O.A.U. to set it up, receives a mandatory cession of 5 per cent of all reinsurance business. Although headquartered in Lagos, Nigeria, Africa Re has a regional office in Nairobi. In practice, the government-owned Kenya Re receives 30 per cent of the business, retains its share and remits the said 5 per cent to Africa Re.

Even with these "local" reassurers, the direct writing companies still find that they have to reassure the bulk of their business (70 per cent) with foreign reassurers. Mercantile and General (M & G) in London, Swiss Re in Zurich, and Munich Re in West Germany are the foreign reinsurance companies that handle most of the Kenyan Cessions. Even Kenya Re retrocedes some business to them. Other foreign companies handling Kenyan reinsurance business are domiciled in Bermuda, Wilmington (U.S.A.) and India.

The association that now groups all life assurers together is the Life Offices Association that was registered in July 1973. Its forerunner was the Life Office Liaison Committee of East Africa that was set up on 24th July, 1959 but got deregistered on 23rd February, 1973, to give way to the Life Offices Association of East Africa (LOAEA). LOAEA originally had 8 companies in its membership - American Life Insurance, Commercial Union Assurance, Crusader Insurance Company, Guardian Assurance, Legal and General Assurance Society, Norwich Union Life Insurance Company, Pearl Assurance, Prudential Assurance, and South African Mutual Life Assurance Society - most of which are no longer in business. The present membership of LOAEA virtually includes all the companies writing life assurance. LOAEA has its objects,

The protection of the interests of ordinary life, consultation and combined action upon questions appertaining to the interests common to ordinary life assurance companies, and by co-operation with any association having similar objects and to act as a channel of communication between its members and Government of any part of East Africa.

It runs the Life Offices Registry of East Africa which compiles data extremely useful to assurance companies. For instance, every member is supposed to file with the Registry information about all proposals for life assurance that it gets, whether accepted, postponed or declined. When enquiring about the proposer's past assurance history, most insurance companies ask whether the proposer has ever made any proposal for life assurance to any company, and whether it was accepted on normal terms. If so, he is requested to give the date of the proposal, the company he proposed to, and the policy number. Armed with this information, the assurer only needs to check at the Registry to find out the previous company's assessment of the risk.

The Life Offices Association of East Africa is affiliated to the Council of Kenya Insurers (COKI) that is the official spokesman and representative of all insurance companies (be they life or general) in any dealings with the Government or other organizations.

5.1.2 SERVICES OFFERED BY THE INDUSTRY TO CLIENTS

The biggest mission of the life assurance industry in any country is the provision of assurance cover (protection) to its clients. Currently only one company in Kenya - British-American Insurance - writes industrial life assurance. Co-operative Insurance Services offers only group life assurance, but it is not the only company offering this line. The rest of the companies write one or more of the various lines of assurance available in the world today. In combination, therefore, the Kenyan life assurance industry offers the whole range of life assurance covers to clients i.e. group life, individual life, industrial life, credit life, annuities, endowments and pension schemes.

These covers are offered by the various companies in many term and whole life versions. The particular policies issued by the insurance companies go under various names differing from one company to another.

For example, one type of whole life policy has been called the "Optima" by one company, the "Family Protector" by another and the "Family Income Earner" by yet another company. Exotic names aside, it is the cover provided that is important. This cover is fairly similar, save for the riders attached as pointed out by 88.9% of the respondents surveyed in this study.

Before providing this cover, the assurer seeks to find as much information as possible from the proposer. The three principal methods used to get this information are the proposal form, the medical report, and the agents report, as per the literature on this issue. The findings of this study differ slightly with this contention. Out of the 7 specimen proposals received from respondents (who constituted 77.8% of the total sample), only one had a provision for the agent's assessment. This, although not conclusive, implies that the majority of the Kenyan assurers use only the proposal form and the medical report to solicit information about the proposer.

The specimen proposal forms received were fairly similar and tied in with the literature. The only difference with the literature was the section about female proposers that was included in 28.6% of the specimen proposals received. A typical "female" section reads:

In The Case of Female Lives Only:

- i) Are your monthly periods regular and natural?
- ii) Have you ever suffered from any uterine or
ovarian displacement?
- iii) How many children have you borne?
(Give their present ages)
- iv) Were your confinements easy and natural?
- v) Have you had any miscarriages?
(Give dates)
- vi) Are you pregnant now? If so when is con-
firmment expected?

Examples of proposal forms and medical forms used by Kenyan companies are provided in Appendix 5 and Appendix 6 respectively. For purposes of anonymity, the companies' names have been obliterated from these specimen forms.

66.7% of the respondents provided specimen policy forms that they issue. An analysis of these forms suggests that most companies in Kenya have one standard form that is used for practically all forms of assurance (except group life). The details of the cover wanted are inserted on this form to make it term or whole life as required.

Like the proposal forms, the specimen policy forms were equally similar in their provisions. They all included the heading, recitals, statements of the contract, signature, the schedule, and the general conditions and privileges. A specimen of the policy form issued by one company is provided in Appendix 7. However, one basic difference was noted among the specimen forms received. Only 16.7% of the specimens received contained tables of cash non-forfeiture values. This suggests that it is not mandatory in this country for companies to include these values in their policy document, unlike in the U.S. as pointed out by the literature.

The general conditions and privileges governing the contract that were included in all the specimen policies received include: payment of the premium, days of grace, proof of age, risk of war and aviation, lapsed policy and options, revival of lapsed policy, automatic paid-up policy, surrender values and loans, assignment, suicide and hazardous occupations (See Appendix 7).

The policy document sets out the other services that the assured receives from the company i.e. policy loans and profits. In addition to these, as was indicated by 88.9% of the respondents to this study, some companies also give insurance advice. This

involves going over the needs of the assured and recommending the most suitable types of cover for him.

Riders provide additional benefits to the assured. This is one area where the findings of this study suggest that the Kenyan practice differs from the literature to some extent. Whereas different riders are available for the assured at his option, as per the literature, the findings of this study suggest that most companies offer these riders in a package. The conventional double indemnity rider and waiver of premiums are offered in the same supplementary form by some of the assurance companies - (See Appendix 8A and B). The study did not uncover any triple or quadruple indemnity pointed out in the literature review.

The guaranteed insurability rider goes under various names in Kenya. Some companies call it the "Option to Purchase Additional Assurance" (See Appendix 8C). Specimens of other riders available on the Kenyan market are given in Appendix 8 D, E, and F.

5.1.3

MARKETING LIFE ASSURANCE

Life assurance companies in this country offer different types of policies to the members of the public. These policies, even though they offer the same type of cover, differ in their content details. However, the success of the assurance company will depend on the number and size of the policies it is able to sell, since the premium income determines the size of the company. Again, assurance is based on the law of large numbers. It is to the assurance companies' interest that a sufficient volume of policies be sold to members of the public. These are the basic reasons that make the marketing of life assurance such a crucial element of the firm's operations.

The findings of this study suggest that in Kenya, the agent plays a central role in this marketing process. Except for 22.2% of them, the respondents revealed that they used either dependent agents or independent agents, or both. When ranking their importance, it was found that respondents relied more on dependent agents than on independent agents. The organization of the agencies was not investigated, but the fact that most respondents relied more on dependent agents than on any other category of people to get new business implies that most companies in the industry prefer to retain control on the marketing effort.

Brokers are also used in selling life assurance. Only 11.1% of the respondents relied heavily on this form of marketing their products. This suggests that most companies prefer not to use brokers in selling life assurance.

The findings also revealed that 55.6% of the respondents also used their salaried employees to get some new business. However, analysis revealed that business acquired this way was considered minimal by the respondents. This suggests that most insurance firms do not use their employees to get the bulk of their business.

As per the findings, commissions were the most popular way of remunerating the sales people. This tallies with the literature.

The findings suggest that no specific class of people goes for a particular form of assurance. However, if broad categorisations are to be used, the low income people go in for industrial life, while the high income class goes for the pure whole life cover. Categories of people in between these two extremes are likely to purchase endowments, annuities, and be members of group life plans.

Group policies are mostly purchased by firms (both private and parastatal organizations) for their employees. This category

will also take pension schemes. These suggestions cannot, however, be said to be representative of the Kenyan situation since they are based on responses from only 22.2% of the respondents.

77.8% of the respondents reported that competition was stiff in the field of life assurance in Kenya. The various companies have therefore had to develop different strategies to meet this competition. The findings suggest that among the various strategies adopted are aggressive marketing, provision of superior services, deliberate low key strategy to cut out the expenses of maintaining a sales force and the various problems brought about by agents, opening of more branch offices to increase the clientele, poaching of lucrative accounts from the big companies, getting Government business, etc. All these have been applied with varied degrees of success in the industry.

5.1.4 PROBLEMS IN THE INDUSTRY AND RECOMMENDATIONS

This study identified several areas in the industry that fall short of the expectations of not only the respondents but also what authors have written elsewhere. These areas include premium determination, the distribution of assurance services, exposure of the public to insurance services, loss-settlement, insurance education and training, reinsurance, and industry image.

The findings of this study suggest that the factors used by insurance companies in Kenya to establish the premiums to be charged are similar to those used by companies elsewhere in the world. The basic rate is determined based on age, sex, and the mortality table. Personal details of the proposer are used to establish whether the risk is substandard and load the premium accordingly. As was

established by Guya¹⁶¹ in 1976, foreign mortality tables were used by insurance companies to determine the premium rate.

This is still true today. The two mortality tables commonly used in this country are the British A 1949-52 mortality table and the American 1958 CSO mortality tables. Recourse to foreign tables is basically due to the fact that life tables are yet to be developed based on the mortality experience in this country - that could be used by life assurance companies. It is thus recommended here that this situation needs to be redressed. Training local actuaries and a diligent compilation and preservation of national life and death statistics will go a long way in meeting this goal.

About 50% of the respondents interviewed in this study reported that taking insurance into the rural areas was one way of improving life assurance in Kenya. By implication therefore, they were pointing out one basic truth - that the majority of the industry's operations are concentrated in urban areas.

In any case, spreading assurance services to cover rural areas will not benefit the assureds only but the assurers as well. The majority of Kenya's populace lives in rural areas. They represent a great potential for the industry. It cannot be disputed that companies that can tap this potential stand to benefit. It is an interesting coincidence, but a fact all the same, that the more the number of branches a company has, the bigger it is in the industry.

Connected to this is the general lack of knowledge about insurance among the members of the public - potential policyholders. About 90% of the respondents were of the opinion that promotion of public

161.
Guya, O.G.S., The Life Expectancy of Life Insurance Firms in Use of the Current Actuarial Tables in Kenya, MBA Thesis, University of Nairobi, 1976

awareness about its nature, purpose, and necessity will go a long way in not only helping the industry expand, but also, it will ensure that more people benefit from the services of the industry. Public awareness will also mean that some of the problems that insurance companies experience as a result of the ignorance of policyholders and their representatives as regards policy terms and conditions will go. The recommendation that the government should step in and correct the situation should not be brushed off so easily. Studies should be carried out to establish the feasibility of introducing insurance on school curriculums. Accounting is taught, so why not insurance?

Using the mass media to publish the nature, purpose and benefits of life assurance in particular and insurance in general will not only benefit the insurance companies but also the Government in increased tax volumes as a result of increased premium takings. The Government also needs to assess the benefits of life assurance. If they are found to exceed the costs, why not make an uninformed or reluctant public to take it? It has been done in the case of third party risks in motor insurance, National Social Security Fund and National Hospital Insurance Fund. The benefits of these schemes are very obvious. Studies need to be carried out to establish the feasibility of instituting some compulsory forms of life assurance.

The findings of this study suggest that loss settlement - the most sensitive area of assurance in Kenya from the policyholder's point of view - follows the same pattern as that in Britain and the U.S. as per the literature. The conditions that must be fulfilled are spelled out in the policy document. More than 55% of the respondents in each case reported that the company must be notified of loss, the loss must be proved to have occurred, the title of the

claimant must be proved, age must be admitted, and the policy document must be produced.

Some of the problems connected to loss-settlement, as raised by respondents in this study, although not conclusive, point out the country's need for some form of Government involvement, to a more marked degree, in this aspect of life assurance. As pointed out in the literature and corroborated by executives interviewed in the course of this study, the proceeds from life policies are critical to the welfare of a bereaved family in many cases. As suggested by the findings, delays are caused in the lodging of claims because of such outlandish reasons as disputes among an assured's dependants, lack of knowledge by members of the assured's family about the existence of the policy, lack of knowledge about the benefits of the policy by claimants, and lack of title by claimants, among others. Neither assurers nor assureds are to blame in this issue - the assurers because they have to adhere to the terms of the contract, and the assureds and their representatives because they apparently are genuinely ignorant of what to do.

This issue is connected to the question of the industry's image. A claim not honoured brings bad publicity for the industry. The adverse public image that the industry has acquired over time is still something that insurance companies have to live down. Companies have been accused, for example, of being too willing to accept premiums but pick on flimsy excuses not to pay claims when notified.

This situation can only be corrected by the Government. Whereas assurers can play an important role to redress it, still, outside interference from the Government may be the only cure at this point in time. A Government Insurance agency needs to be created, possibly

under the auspices of the envisaged Commissioner of Insurance's office. Such an agency can serve a dual purpose - collecting and filing information about all life policies in force. This may appear preposterous, but the benefits derived will make such an action worthwhile.

Such details as the sum assured, premium payments, date of maturity, beneficiaries, etc., can be collected and filed. In the case of intestate deaths, and others where disputes arise among representatives of the assured, policy proceeds may be paid to the agency which will then dispatch them to the beneficiaries.

Such an agency will also ensure that claims are lodged in time and are not dishonoured because of "flimsy excuses". The agency can be invaluable as a registry. As a tool of collecting and publishing statistics about the industry, it will be extremely useful to the assurers as well as members of the public. Educating the public about insurance can be left to such an agency, working in liaison with the assurers and the Life Offices Association of East Africa.

The findings of this study suggest that reinsurance is another problem area in the country. 88.9% of the respondents reported that they were required by law to cede 25 per cent of their reinsurance business to Kenya Re and 5 per cent to Africa Re. They further reported that they placed the remaining 70 per cent of the business on one or more of the foreign markets. These findings suggest that the bulk of Kenya's reinsurance business is placed with reinsurers outside the country - a fact that should be regretted because it means the outflow of funds and hence the foreign exchange of this developing country. This defeats one of reasons for the creation of

Kenya Re fifteen years ago. It is suggested here that the reserves of Kenya Re need to be reviewed to see if they are not sufficient to handle more than the 25 per cent reinsurance business that it mandatorily receives now.

Another reinsurance firm should be set up, to take part of the business that is still flowing out of the country, in case Kenya Re is stretched to its limits. Such an action could be wholly Government or a joint venture with the assurance companies in the industry. It should be remembered that any business placed on the foreign market means that much less foreign exchange for Kenya - a situation that a developing country should seek to avoid.

Finally, training and development of personnel in the industry have shown heavy foreign leanings. 100% of the respondents reported that they encouraged their employees to pursue the A.C.I.I. and F.C.I.I. programmes that are run by the Chartered Insurance Institute in London. 11% reported that they also encourage their employees to pursue the American-originated LOMA professional studies. About 45% reported that their employees who were not in departments handling technical aspects of life assurance were encouraged to pursue C.P.A. and C.P.S. (Certified Public Accountant and Certified Public Secretary) qualifications run by the Kenya Accountants and Secretaries National Examination Board (KASNEB). 66.7% involved their employees in courses and seminars run by the Insurance Training and Education Board (ITEB). These training and professional attainments in most cases play a big role in the building of the employees' careers in the industry.

Logic, however, calls for a change. Local conditions facing the industry make it distinct from, say, the British or other foreign insurance industries. For British law and practices to be taught in

order to gain promotion in a purely Kenyan environment is not very logical. It is suggested here that training and professional qualifications that are more relevant to this country's conditions are called for. The local Insurance Institute needs to survey the possibilities of, and introduce, an academic branch that will organize professional examinations and training. KASNEB has done it for accountants and public secretaries, why should not insurers do the same?

5.1.5 THE ROLE THE GOVERNMENT HAS PLAYED IN LIFE ASSURANCE

At the time of independence, the Government realised that the insurance industry it had inherited was, to a large extent, not relevant to the interests of the indigenous population. It has, over the years, embarked on a programme of reorganizing, restructuring, strengthening and participating in the national insurance industry with the view of making it more responsive to the aspirations (both political and socio-economic) of this developing country.

The life assurance industry has inevitably been touched in all these "doings". Several organizations have been set up, some legislations passed and directives issued, by the Government that have affected the industry.

The Government decided to actively participate in the insurance industry upon realising the role insurance plays in the economic development of the country and the massive funds it could mobilise. It set up Kenya National Assurance Company, the African Assurance and Provident Corporation, the Kenya Reinsurance Corporation and Minet-ICDC.

The Kenya National Assurance Company was set up in December 1964 as a joint venture between the Government (who controlled 70 per cent of the shares) and a number of insurers in the country.

It is now wholly (100%) Government-owned. Over the years, the company has grown into the biggest composite office in the industry. In life assurance, it is definitely one of the top two companies in the industry as regards premium collection and business turnover as indicated by the findings of this study. The company has actively participated in promoting public awareness on insurance by sponsoring radio programmes on insurance. In a country with many parastatals that have been prominent for poor performance (Kenatco, KCC, Kenya Meat Commission, etc.), Kenya National Assurance has performed impressively although a lot still has to be done as regards promoting insurance (including life assurance) in the country.

The Government also set up the African Assurance and Provident Corporation by an act of parliament in 1965. The aim was to create a corporation to take over insurance business in Kenya of a Zambian Corporation with the same name that was being wound up. The purpose was to protect the Kenyan clients of the Zambian Corporation who would have lost the reserves that their policies had accumulated over time. The corporation was later taken over by the Kenya National Assurance Company.

By an act of parliament, the State Reinsurance Corporation (which was later changed to Kenya Reinsurance Corporation) was set up in December 1970 with the objectives:

- i) To control the outflow of funds and hence enhance the foreign exchange reserves of the country.
- ii) To participate in the business of reinsurance in order to generate funds for local development, and
- iii) To have controlling power over the insurance industry in the country.

Initially, the Corporation concerned itself only with fire reinsurance, receiving 20 per cent of reinsured business in this class. In 1973 it started receiving 15 per cent cessions on marine and 10 per cent cessions for aviation. In 1974 it began taking 10 per cent cessions on motor business. These cessions were all increased to 25 per cent in 1977.

The legal cessions in life reinsurance business commenced on 1st April 1979 under Legal Notice No. 54 of the Kenya Reinsurance Corporation Act. All cessions to Kenya Re in life reinsurance are on surplus-treaty basis i.e. 25 per cent of the sum assured in excess of the ceding company's net retention. The reinsurance is either effected on original terms or on risk premium terms. The amount of reinsurance on original terms is a proportion of the original sum assured, and is constant throughout the duration of the policy. The reinsurance is effected on the same premium rates, terms, and conditions of policy as accepted by the ceding company. On the other hand, cover is only provided for the death strain under risk premium reinsurance, therefore, the sum reassured here in any year is the original sum reassured less the reserve, and it decreases each year till the end of term of policy. The premium charged is only for the death strain.

Lack of an institutionalised Insurance Department or Agency in the Government has meant that over the years, Kenya Re has assumed the role of Government watchdog in not only life assurance but in insurance as a whole. The Corporation provides training facilities to members of its staff and employees of insurance companies. It has initiated discussions on a local standardization of policies and their wordings. It has also conducted surveys in such "sensitive" areas as premium setting.

Above all, however, Kenya Re's contribution to the economy and the nation as a whole has been the savings it has generated for the country in terms of foreign exchange. All its premium collections are funds that would have found their way out of the country for reinsurance with foreign companies.

The Government owns a brokerage firm-through a joint venture between the London based Minet group and the State's Industrial and Commercial Development Corporation (ICDC) - the Minet-ICDC. The brokerage firm is among the biggest in the industry and it handles most of the insurance business of Government agencies, parastatals and their clients. This joint-venture (Minet-ICDC) has meant that the Government participates in the full range of insurance activities - brokerage, insurance (assurance) and reinsurance (reassurance).

The Government co-operated with other countries in Africa to see, in 1978, the creation of Africa Reinsurance Corporation (Africa Re) - the first intergovernmental reinsurance firm in the world. It is owned by member states of O.A.U. (Organization of African Unity) and the African Development Bank - also owned by member states of O.A.U. Its formation was meant to reduce the outflow of funds for reinsurance from the developing countries into the developed world. It receives a compulsory legal cession of 5 per cent from 39 states in Africa. In addition to the Head Office in Lagos, Nigeria, Africa Re has two regional offices, one in Casablanca, Morocco, and another in Nairobi, Kenya.

The life assurance industry, as is true of the total insurance industry, has been run over the years as per the legislations passed in the colonial and post-independence periods and Government directives issued from time to time. All the laws and directives that will govern the industry in future are now consolidated into

the Insurance Act, 1984, that is yet to commence.

The Insurance Companies Act, 1960, is still the major legislation governing the industry. It includes provisions on the registration and licensing of insurance companies, the administration of insurance companies, accounting and financial reports of the companies, the administration of insurance funds, the Insurance Advisory Board, and those to conduct brokerage business, among other provisions.

This legislation leaves glaring loopholes that have, over time, underlined its insufficiency. It does not address itself to such vital issues as policy wordings, premium rating, loss-settlement and other technical aspects of the industry.

From time to time, the Government has issued such directives that have had profound effects on the industry. Prominent among them was the 1977 directive that all companies in the industry must incorporate locally with at least $33\frac{1}{3}$ per cent of their equity in the hands of Kenyan nationals. To date, all companies have complied with this. Soon after this came the Kenyanisation of the workforce and the 10 per cent increase of personnel directive. Insurance Companies, like all other companies in the country, had to gradually localise their work-force and increase it by 10 per cent as per the Presidential decree.

The recently enacted Insurance Act, 1984 (yet to commence) reflects the Government's bid to consolidate the law of insurance under one statute and address itself to unique conditions in Kenya that may not be served by present legislations which borrowed heavily from British legislations.

The most notable provision of the Act is the creation of the Office of the Commissioner of Insurance that will be charged with the overall control and day to day running of the insurance industry. The Commissioner will have the powers to call for information and production of books or records of any insurance company; examine reinsurance treaties; institute investigations into the activities of insurance companies; approve premium rates, the appointment of chief executives of insurance companies and investment of the funds of insurance companies.

The Act will also impose such conditions on the industry that are aimed at stabilizing it and ensuring that business is conducted ethically (!). These include what companies must fulfil before they can be licensed to operate insurance, brokerage or other activities related to the industry; accounting and reporting for firms in the industry; actuarial investigations; the management of firms; premium rates, policy terms and claim settlement, and the intermediaries (agents, brokers, risk managers, loss adjusters, surveyors, etc.) and the conduct of their business among other provisions. The Act also restricts the carrying out of life and general business in tandem.

This statute is bound to have important ramifications for the industry. It limits excessively the powers of assurance companies when it comes to premium setting, and tries to bring loss - settlement in hand. Bearing in mind the importance of life assurance to the individual and the family unit, and its economic importance as a tool of mobilizing funds, this Act was long overdue. It marks the culmination of the Government's efforts to control the industry.

A lot, however, remains to be done. The standardization of policies, the development of local mortality tables, promotion of public awareness on insurance, and ensuring that policyholders get fair deals without

having to nationalise the industry, are just a few of the areas the Government has to address itself to as regards life assurance. Whereas companies writing life can be left to handle some of these issues, what they can do is rather constrained by the fact that they are in business for a profit. Their firms are commercial enterprises, and thus, although it may be desirable to effect some changes, these may not be economically viable. As one executive interviewed in this study put it, "In the life assurance industry, as in other industries, policies¹⁶² are not based on matters of desirability. They are based on problems as they arise and are surmounted."¹⁶³ The average citizen does not comprehend the intricacies of life assurance. That leaves the Government as the principal instigator of any changes that may refine the industry.

5.1.6 IN RETROSPECT

This study set out to document the Kenyan life assurance industry. Its findings indicate that the industry is composed of 19 insurance companies (who also write other classes of insurance business apart from life), hundreds of agents exclusively representing particular companies, about 26 brokers who handle most of the big accounts in the industry (group policies and pension schemes) but very little individual life assurance business; and two reinsurance

162. The word "policies" is used here not to mean the documents evidencing the insurance contracts, but rather, causes of action or ways of performing some activity.

163. As per Mr. S. Wandera, Life Department, Pan Africa Insurance Company Limited.

firms (a state-owned corporation and an inter-governmental organization).

The industry offers individual life, group life, industrial life, annuities, endowments and pension schemes to its clients who come from all walks of life. These assurances are offered in their various term and whole-life forms. The marketing of life assurance products revolves around the agent and the broker.

Life assurance business is transacted, and its technical aspects handled, in the same manner that obtains elsewhere as the literature suggests. However, the industry experiences some problems, most of which are traceable to the general lack of knowledge by the average policyholder about the life assurance mechanism.

The government has, and still plays, a crucial role in the industry. It has effectively participated in the life assurance industry by setting up state corporations that have competed with private firms in brokerage, direct-writing and reinsurance business. In spite of the success of the state's reinsurance firm, the bulk of Kenyan life reinsurance business is still placed on foreign markets.

The Government has controlled the industry and regulated it by legislations and directives. The industry is still governed by the colonial Insurance Companies Act, 1960. A new legislation, the Insurance Act, 1984, will have profound effects on the industry, but it is yet to commence.

5.2 LIMITATIONS OF THE STUDY

The majority limitation that encumbered this study was the lack of sufficient time in which to conduct it. University deadlines

and other external constraints meant that the identification of the problem; search for available literature and research; preparation and presentation of the final report and the inevitable typing were all done within three months. The researcher does not dispute the fact that a more thorough job would have been achieved if more time had been available for the study.

The limited time available did not enable the survey of all the 19 companies that write life assurance. Thus, whereas the findings of this study may provide useful pointers as to the life assurance practices obtaining in Kenya, they are however, not conclusive because only about half of the population of interest was included in the sample.

Again, although a very representative sample was intended, the method of categorisation of the companies into big, medium and small, and also according to ownership was not without shortcomings. Although an up-to date list of companies writing life assurance was compiled, the latest financial statements of the companies that could be obtained at the Registrar General's office were those for the year 1983. The $1\frac{1}{2}$ years that have elapsed may have brought differences in premium and ownership standings that could not be reflected in the results of the categorisation (See Appendix 3).

Any survey involving the use of questionnaires has inherent problems. Seldom is it possible to ask enough questions in the questionnaire to cover a given subject, or to obtain answers for all questions asked. This problem is enhanced if respondents have to go out of their way to get the information requested in the questionnaire. Although the follow-up interviews cut down the effects of these problems, they could not however, be completely eliminated in this study.

The qualitative nature of most of the data gathered in the study was another limiting factor. Indexes and Likert-style scales can be used to quantify some qualitative data, especially where opinions are sought. However, the benefits of this course of action for an industry study of this nature are somewhat nebulous.

Finally, the study was severely constrained by the lack of research studies and current literature of a "near-at-home" nature. It would have been useful to find out what has been documented on the subject in other developing countries especially in Africa. Virtually all the available literature, however, was either British or American (U.S.A.).

5.3 SUGGESTIONS FOR FURTHER RESEARCH

The following are possible areas for future research.

1. Owing to time limitation, not all the companies writing life assurance were surveyed. It is, therefore, suggested that future research should be directed at exploring the whole industry. Other salient features of the industry's practices such as organization and related considerations, could be included in such studies.
2. This study could not exhaustively explore such aspects as premium rating in Kenya, underwriting life assurance, marketing life assurance, reinsurance, and loss-settlement. It is suggested that each of these aspects can form the subject matter of future research.

3. This study investigated such aspects as; the possible reasons that make policyholders to surrender or allow their policies to lapse; and some of the problems existing in loss-settlement. The findings on these issues represent what assurers perceive to be the reasons. Further research should be conducted on these issues to establish what the policyholders and claimants perceive to be the problems and their causes.
4. Further research could also be conducted among policyholders to establish what types of people go for what types of assurances and the possible explanations behind this. The results may help in making life assurance more geared towards fulfilling real needs and expectations of the clients.

APPENDIX 1COVERING LETTER TO RESPONDENTS

Dear Respondent,

The average Kenyan today neither knows and understands what assurance entails nor appreciates its social and economic importance. This survey aims at studying the nature and operations of the life assurance industry in this country. It is hoped that the findings will go a long way in correcting the general lack of knowledge about life assurance among the majority of Kenya's populace. It is with this objective that the attached questionnaire calls for your assistance in providing the necessary information.

Your name and that of your company need not appear anywhere in the answers you provide. You are also assured that the information you provide will be treated in the strictest confidence. Should you so wish, a summary of the findings shall be sent to you upon request.

I shall appreciate your co-operation in the conduct of this survey by your returning the completed questionnaire before May 20th, 1985.

Yours sincerely,

JOSEPH KHAMALA

APPENDIX 2

QUESTIONNAIRE

Please answer each of the following questions according to the instructions given for each.

SECTION 1

- 1. Which of the following types of life assurance does your company deal in? Please tick only the relevant ones and rank them in importance according to premium collections. For instance, the biggest premium earner should carry the rank (1).

	<u>TYPE</u>	<u>RANK</u>
<input type="checkbox"/>	Group Life Assurance	_____
<input type="checkbox"/>	Individual Life Assurance	_____
<input type="checkbox"/>	Industrial Life Assurance	_____
<input type="checkbox"/>	Credit Life Assurance (Including mortgage protection)	_____
<input type="checkbox"/>	Pension Schemes	_____
<input type="checkbox"/>	Annuities	_____
<input type="checkbox"/>	Others	_____

- 2. If your company does not deal in some of the major types of assurance mentioned above, what could be the main reason?

- Your company deals with clients who do not need these other assurances
- Your company is specializing in some types of assurance only
- It is the policy of your company not to deal in them
- Financial and other constraints make your company not to deal in them
- Other. Specify
-

3. Do you attach any riders on the policies you offer?

Yes

No

If yes, briefly mention some of them and provide specimen policies if you can.

.....

4. For each of the types of life assurance that your company offers, who are your clients? Please provide a list of them ranking them in importance as far as premium volumes are concerned. The following are possible client categories: Civil servants, employees of service organizations, employees of manufacturing firms, farmers, traders, teachers, others, etc.

Assurance

1 2 3 4

Clients

a	a	a	a
b	b	b	b
c	c	c	c
d	d	d	d

5. What are the factors that your company takes into consideration when determining the premium rates and loadings to be charged?

Age

Past Assurance History

Sex

Hobbies and Interests

Occupation

Weight

Medical History

Height

Type of Cover Wanted

Residence

Others. Specify

.....

6. Apart from policies, what other services or benefits does your company offer to policyholders?

- Policy Loans (short-term)
- Mortgage Loans
- Participation in Profits
- Insurance Advice
- Others. Specify
-

SECTION 2

7. Does your company use the following in marketing its products? Please tick the relevant ones only.

- Employees (permanent and pensionable)
- Dependent (captive) agents
- Independent agents
- Brokerage firms
- Others. Specify
-

8. How does your company compensate the sales force?

- By Salary
- Both Salary and Commission
- By Commission
- Other. Specify
-

9. On the average, what are the qualifications of your sales force at the point of recruitment?

- "O" Level Certificate
- "A" Level Certificate
- Other. Specify
-

10. Do your sales people undergo any training before and after being recruited by your company?

Yes

No

If yes, please comment
.....
.....
.....

SECTION 3

11. What type of information does your company seek to know about a proposer in the proposal form? Please provide specimen proposal forms and comment on how the information sought will affect acceptance or rejection of the proposer?

.....
.....
.....
.....

12. Does your company find competition stiff in life assurance?

Yes

No

If yes, how does it meet this competition?
.....

13. Does your company offer similar policies as those of your competitors?

Yes

No

Why, or why not?
.....
.....

14. In writing life assurance, which companies occupy the top three positions? List them please

No. 1

No. 2

No. 3

Why are they the industry leaders?
.....

15. Which of the following reasons do you think cause policyholders to surrender their policies or let them lapse?

- Upon taking the policies, policyholders discover that they cannot afford the premiums as they had thought initially
- Lack of proper explanation to the policyholders by the agent when the policy was sold initially
- Dissatisfaction by the policyholder with the benefits such as loans etc., offered by the company
- Dissatisfaction by the policyholder with the way the company services the policy
- Other. Specify
-
-

16. How do the following rank as methods your company uses in getting new policyholders?

- Your company sponsors programmes on radio and T.V.
- Your company advertises in newspapers, magazines, journals, etc.
- Your company distributes T-shirts, handkerchiefs, car-stickers, etc.
- Your agents/employees make personal contacts and solicitations with prospective clients
- Others. Specify
-
-

17. What problems does your company experience in marketing and underwriting life assurance?

.....

.....

.....

.....

SECTION 4

18. After a loss has occurred, what conditions must be fulfilled by the policyholder, or his dependants, before and after lodging the claim?

.....
.....
.....
.....

19. What proportion of the claims lodged in any year, are honoured, taken for arbitration or repudiated totally?

<input type="checkbox"/>	Honoured	%
<input type="checkbox"/>	Arbitration	
<input type="checkbox"/>	Repudiated	

Please list some of the major reasons that make your company to repudiate some claims or refer them to arbitrators.

.....
.....
.....
.....

20. What are the principal problems that face the company in claim settlement and what are the reasons behind them?

.....
.....
.....
.....

SECTION 5

21. What type of reinsurance arrangements does your company use?

<input type="checkbox"/>	Facultative	<input type="checkbox"/>	Excess-Loss Treaty
<input type="checkbox"/>	Quota-Share Treaty	<input type="checkbox"/>	Others. Specify
<input type="checkbox"/>	Surplus Treaty	
		

Which reinsurance markets does your company place its business? The name of the reinsurer need not be mentioned-just indicate the town the reinsurer is domiciled and the percentage of business ceded to it.

	%
<input type="checkbox"/>	
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

22. Does your company, or its officers belong to any life assurance association?

Yes No

If yes, mention the association and briefly comment on its functions and objectives.

.....

.....

.....

.....

23. What training programmes (professional and non-professional) does your company require and/or encourage its employees to undergo before and after recruitment?

.....

.....

.....

.....

24. In your opinion what can be done by the Government, and/or life assurance companies to improve life assurance business in Kenya? Comment.

.....

.....

.....

What can other categories of people do?

.....

.....

.....

APPENDIX 3

COMPANIES WRITING LIFE ASSURANCE AS AT JANUARY 1, 1985

1. American Life Insurance Company (ALICO)
2. Apollo Insurance Company Limited
3. Blue Shield Insurance Company Limited
4. British-American Insurance Company (Kenya) Limited
5. Cannon Assurance (Kenya) Limited
6. Co-operative Insurance Services Limited
7. Corporate Insurance Company Limited
8. Crusader Insurance Company (Kenya) Limited
9. Insurance Company of East Africa Limited (ICEA)
10. Jubilee Insurance Company Limited
11. Kenindia Assurance Company Limited
12. Kenya Commercial Insurance Corporation Limited
13. Kenya National Assurance Company Limited
14. Lion of Kenya Insurance Company Limited*
15. Old Mutual*
16. Pan Africa Insurance Company Limited
17. Pioneer General Assurance Company Limited
18. The Union Insurance Company of Kenya Limited
19. Trident Insurance Company Limited

Notes

- * These Companies operate "closed funds" i.e. they do not transact new life assurance business.

APPENDIX 4

The Categorisation of Companies Writing Life Assurance by Origin of Ownership and Annual Premium Size

ORIGIN OF MAJORITY OWNERSHIP	KENYAN	BRITISH*	INDIAN	AMERICAN**
ANNUAL LIFE ASSURANCE PREMIUM INCOME				
BIG (OVER SHS. 30 MILLION)	2	0	2	2
MEDIUM (BETWEEN SHS. 15 MILLION - SHS. 30 MILLION)	1	3	2	1
SMALL (BELOW SHS. 15 MILLION)	4	2	0	0

NOTES:

* Includes one Company of French origin and one of South African origin

** Includes one Company of Canadian origin and one Subsidiary of a Company incorporated in the Bahamas

PROPOSAL FOR LIFE ASSURANCE

Life Department

LIFE PROPOSAL FORM

ALL QUESTIONS MUST BE ANSWERED IN FULL IN PROPOSER'S OWN HANDWRITING; DASHES WILL NOT BE ACCEPTED. PLEASE USE BLOCK LETTERS THROUGHOUT.

LIFE TO BE ASSURED

- 1. (a) Name in full (MR/MRS/MISS).....
 - (b) Postal Address P.O. Box Town
 - (c) Residential Address..... (d) Telephone No.
 - (e) Occupation (Please give precise details)
 - (f) Place of birth.....(g) Date of birth.....
 - (h) Age next birthday.....(i) Married/Single(j) Nationality
- (In order that age may be admitted, proof of age should be furnished).

LIFE ASSURANCE DETAILS

- 2. (a) Type of policy..... (b) Term..... years
- (c) Sum assured (d) With/Without profits
- (e) Will premium be paid by stop order or Banker's order?
- (f) Name of the employer
- (g) Premium payable annually/half yearly/ quarterly/monthly
- (h) ADDITIONAL BENEFITS DESIRED: LIFE PREMIUM Kshs.
- Waiver of premium Kshs.
- Accident and disability Kshs.
- TOTAL PREMIUM Kshs. _____
- (i) Additional Benefit cover Kshs.

3. BENEFICIARIES

(i) Full Name	Age	Relationship
.....
.....

If any of the above-mentioned person(s) has not attained age of majority (18years) Section (ii) below must be completed naming Guardian(s) who must be over 18 years of age.

(ii) Guardian: Full Name	Age	Relationship
.....

Except as otherwise directed the proceeds are to be divided equally among all persons who are named as beneficiaries and who survive the insured and have attained the age of majority. Otherwise the Guardian(s)

MEDICAL HISTORY

4. (a) Are you now in good health? If not, give details

.....

(b) Give name and address of your usual doctor

.....

(c) How long has he known you?.....

.....

(d) Have you consulted him or any other doctor during the last 3 years? If so, when and for what complaints?.....

.....

(e) Have you ever been an in-patient in a hospital or nursing home during the last 3 years? If so, when and for what complaints?...

.....

(f) Have you ever suffered from or had symptoms of any of the following? Please underline the relative disease and give details herebelow:

- (i) Fits, giddiness, mental disturbance, nervous breakdown or paralysis Yes No
- (ii) Affection of the ear, such as, deafness, discharge, perforation of drum, or any impairment of sight Yes No
- (iii) Asthma, bronchitis, chronic cough, tuberculosis, pleurisy, pneumonia, spitting of blood or any other affection of the throat or lung. Yes No
- (iv) Breathlessness, pain in the chest, palpitation, swelling of ankles or any other heart impairment or disease. Yes No
- (v) High or low blood pressure. Yes No
- (vi) Affection of bones, glands, joints, spines or veins. Yes No
- (vii) Abdominal pains or discomfort, fistula, piles, indigestion, varicose veins, rupture or ulcer. Yes No
- (viii) Affection of urinary and generative organs, frequent or painful urination, gonorrhoea, stricture, syphilis, sugar or albumen in the urine, kidneys or bladder. Yes No
- (ix) Gout, rheumatism, rheumatic fever. Yes No
- (x) Diabetes. Yes No
- (xi) Any physical defect or deformity. Yes No
- (xii) Any disease not mentioned above. Yes No

Date	Disease	Doctor Consulted	Duration	Result

(g) Have you ever met with serious injury? If so, give details

.....

(H) Have you had or are you about to undergo a surgical operation? If so, give details

.....

(i) Have you been or are you about to be x-rayed? If so, give details

(j) Has any near relative suffered from insanity, cancer, epilepsy, diabetes, stroke or heart disease? If so, state the disease and the relative affected.....

(k) Has any relative or any person in any home in which you have lived suffered from tuberculosis? If so, give date of your last contact

.....

(l) What is your height?.....ft.ins.

(m) What is your weight?.....lbs.

(n) Is your weight increasing? ; decreasing? ;or stationary? Please tick.

FAMILY HISTORY

5.

	Living		Dead			
	Present Age	State of Health	Age at Death	Cause of Death	Duration of Illness	Year of Death
Father						
Mother						
Brothers						
Sisters						

HABITS

- 6. (a) How frequently, and in what quantity do you use intoxicating liquors?
- (b) Have you ever used any of the habit forming drugs or narcotics?
- (c) What quantity of cigarettes or tobacco do you smoke daily?.....
- (d) Have you undergone treatment for any liquor or drug habit?

PREVIOUS INSURANCE HISTORY

- 7. (a) Has a previous proposal on your life ever been made to this Company? If so, give Policy No
- (b) Has any proposal for Life Assurance or Sickness or Accident Insurance on your life been accepted at an extra premium or on other special terms, or declined by another Company? If so, when and by which Company?
- (c) Is the Policy applied for herein intended to replace Insurance now carried in this or any other Company

APPLICABLE TO A FEMALE LIFE

- 8. (a) Is menstruation regular and healthy?
- (b) How long have you been married?
- (c) How many children have you had?
- (d) Are you now pregnant? If so how far advanced?
- (e) Have you had any disease of the womb or ovaries or breast?
- (f) Have you had any miscarriages or other than normal labours?

GENERAL

- 9. Is there any other circumstances or information touching the past or present state of your health or habits, or any other cause that might render an assurance on your life more than usually hazardous? If so, give details
-
-
-
-

DECLARATION BY THE LIFE PROPOSED

I declare that, to the best of my knowledge and belief, all the statements in this proposal, whether in my own handwriting or not, are true and complete and I agree that they, together with this Declaration and, in the event of my being medically examined, the answers to be made by me to the medical examiner acting on behalf of the Company (which are deemed to be incorporated in this declaration) shall be the basis of the contract between me and the Company.

I also agree that the Company may seek information from any doctor who has attended me or from any life assurance company to which I have made a proposal for life, sickness or accident insurance and I authorise the giving of such information.

I further agree that in the event of my failure to notify the Company in writing of any change in my health, habit, occupation or family history before this proposal is accepted by the Company or payment of the first premium, whichever is later, the Company will be entitled to repudiate this contract.

Signed at (Place).....this.....day of.....19.....

.....

Signature of Witness

.....

Signature of Life to be assured

Name

Address

Occupation

TO BE COMPLETED IF THE POLICY IS TO BE EFFECTED BY A PERSON OTHER THAN THE LIFE TO BE ASSURED

Name in full (Mr/Mrs/Miss)

Postal address

Occupation

Nature and extent of interest in life to be assured

.....

I, the person to whom the policy is granted, declare that, to the best of my knowledge and belief, the above statements are true and complete and I agree that this Declaration together with the statements give above and to the medical examiner by the Life to be assured (if medical examination is required) shall be the basis of the contract between myself and the Company.

Signed at (Place).....this.....day of.....19.....

.....

Signature of Witness

.....

Signature of Grantee

Name

Address

Occupation

NOTES:

The Company is under no liability in respect of this proposal until it has been accepted by the Company and the Company's printed form of receipt issued in exchange for the first premium.

FOR OFFICE USE ONLY

APPENDIX 6

MEDICAL EXAMINER'S REPORT

SPB

NAME OF LIFE TO BE ASSURED _____ Married/Single/Widowed/Divorced _____
 (Please print in block letters)
 ADDRESS _____ Age next Birthday _____
 Profession or Occupation _____
 Medical Examiner's full name _____ Qualifications _____
 (Please print in block letters)

Medical Examiner is requested to obtain categorical answers to the following questions, and full information of those conditions likely to shorten life.

(a) Do you understand that your answers in this Personal Statement are warranted to be true and complete and that consequently any mis-statement or concealment of fact may invalidate any contract of assurance based thereon?	(a)		
(b) Has a proposal for assurance on your life ever been declined, deferred, withdrawn or accepted with an increased premium, debt or lien? (If so, state full particulars)	(b)		
Are you now, and have you been for some years past, in good health?			
(a) What kind and amount of intoxicating liquor do you consume each WEEK?	(a)		
(b) Have your habits as regards the use of such liquor always been strictly sober and temperate?	(b)		
(c) What is your daily habit as regards tobacco?	(c)		
(d) Are you taking or have you ever taken sedatives, tranquilisers or drugs for the purpose of controlling any type of medical or physical impairment? (If so give full particulars)	(d)		
Have you suffered from or had any symptoms of or been told you had any of the following:-	Answer "YES" or "NO"	If "Yes" give full details including dates and names and addresses of Doctors consulted.	
(a) Spitting of blood, asthma, persistent cough, pneumonia, pulmonary tuberculosis, pleurisy or affection of the lungs or throat? (If applicant has had pleurisy, please ascertain date, cause and duration and if any effusion).			
(b) Blackout, or fits of any kind, mental or nervous diseases or fainting?			
(c) High or low blood pressure, palpitation, shortness of breath or pain in chest on exertion, or any affection of the heart? (Ascertain if any tablets taken or any treatment received for blood pressure).			
(d) Chronic or persistent indigestion, stomach ulcer, dysentery, jaundice, gall stones, or any other affection of the bowels, liver or gall bladder or other abdominal organs?			
(e) Any affection of the prostate, testes, kidneys, bladder or urinary system, or generative organs?			
(f) Rheumatism, gout, rheumatic fever, arthritis, or any bone or joint disorder?			
(g) Discharge from ears, deafness, or impairment of vision?			
(h) Cancer, growth or tumour of any kind, or any enlarged glands, or any skin disorder?			
(i) Syphilis, gonorrhoea or other venereal disease?			
(j) Malaria, blackwater fever, bilharzia or any other tropical disease?			
(k) Any illness or disease involving treatment with Cortisone or other steroids?			
(l) Any accident, physical defect or other illness?			

Have you submitted to any	If "Yes" give full details
(a) Surgical operation?	(a)
(b) X-ray examination?	(b)
(c) Investigation in Nursing Home or Hospital?	(c)
(d) Investigation or examination by a consultant or specialist?	(d)

IF LIVING			IF DEAD			
	Age	State of Health	Age at Death	Year	Cause of Death	Duration of illness
Father						
Mother						
Siblings						
Siblings						
Siblings						
Siblings						
Siblings						

(b) During the past two years have you resided or been in contact with any person who had pulmonary tuberculosis or other infectious or notifiable disease? (If so, state full particulars)

(c) Has any close relative living or dead had cancer, coronary or artery disease, diabetes, epilepsy, pulmonary tuberculosis or suffered from insanity? (If so, state full particulars)

(a) Name and address of your usual medical attendant.

(b) When did you last consult him, and for what reason?

THE CASE OF FEMALE LIVES ONLY:--

- | | |
|---|-----|
| (a) Are your monthly periods regular and natural? | (a) |
| (b) Have you ever suffered from any uterine or ovarian displacement or disease? | (b) |
| (c) How many children have you borne? (Give their present ages) | (c) |
| (d) Were your confinements easy and natural? | (d) |
| (e) Have you had any miscarriages? (Give dates) | (e) |
| (f) Are you now pregnant? If so, when is confinement expected? | (f) |

DECLARATION

I declare and warrant that this Personal Statement is complete and true, and also that I understand and agree that this statement together with the proposal for assurance on my life and any other documents relative thereto, shall be the basis of the proposed contract of assurance.

I hereby irrevocably authorise and request any doctor or other person who may be in possession of, or hereafter acquire, any information concerning my health up to the present time, to disclose such information to the Kenya National Assurance Company Limited and I agree that this authority and request shall remain in force after my death as well as prior thereto.

Signed by the life to be assured: _____

(in the presence of Medical Examiner)

PART 2 -- REPORT AND OPINION OF THE MEDICAL EXAMINER

<p>1. Is the examinee personally known to you? Have you ever attended him/her professionally? If so, for what ailments, and when?</p>			
<p>2. Height. _____ ft. _____ ins. (without boots or shoes)</p> <p>Weight. _____ lbs. (in ordinary indoor clothes)</p>	<p>Figure and General Appearance</p>	<p>Racial Origin</p>	<p>Girth of Chest on Expiration _____ ins.</p> <p>Girth of Chest on full Inspiration _____ ins.</p> <p>Girth of Abdomen _____ ins.</p>
<p>1. (a) Did you personally weigh and measure the examinee? (b) Is weight increasing, decreasing or stationary?</p>		<p>(a) _____ (b) _____</p>	
<p>2. Does appearance of examinee correspond with age stated? If not, how old would you have estimated him/her to be?</p>			
<p>3. Please state condition of (a) Ears (if history of discharge) _____ _____ (b) Mouth, Tongue, Teeth and Throat _____ _____</p>		<p>14. RESPIRATORY SYSTEM</p> <p>Do you detect any symptoms or signs suggesting abnormality or disease of the respiratory system? If so, give details.</p> <p>_____ _____ _____</p>	
<p>5. CIRCULATORY SYSTEM</p> <p>(a) What is the position of the apex beat of the heart? (b) Are the sounds and size of heart normal? (c) Are there any cardiac murmurs?</p> <p>If so, please describe the character and loudness of the murmurs, the position in the heart cycle, the point of maximum intensity, the degree of transmission and whether affected by exercise, breathing or posture.</p> <p>(d) Are there any signs of arteriosclerosis? (e) What is the rate and character of the pulse? (f) What is the Blood Pressure?</p> <p>(If it exceeds 140/90 (5th Phase) please record two further readings taken at five minute intervals)</p>		<p>(a) In the _____ interspace; _____ ins. from Mid-sternal line.</p> <p>(b) _____ (c) _____ _____ _____ _____ (d) _____ (e) Pulse rate _____ per minute Character _____ (f) Systolic _____ Diastolic _____ 1. _____ (5th Phase) 2. _____</p>	
<p>6. (a) Do any signs exist of disease of the abdominal or pelvic viscera? (b) Is there any enlargement of the liver or spleen?</p>		<p>(a) _____ (b) _____</p>	
<p>7. Is hernia present? If so, state nature and whether a properly fitting truss is regularly worn or if an operation is necessary.</p>			
<p>8. Is there any defect or deformity of person, enlargement of thyroid or lymphatic glands, or any cicatrices? If so, give particulars.</p>			
<p>9. (a) Is there any evidence of disease of the brain, nerves or spinal cord? (b) Are the sight, hearing, speech and gait normal? (c) Are there any tremors of the hands, lips or tongue? (d) (i) Are the knee jerks normal? (ii) Do the pupils react to light? (iii) Are the pupils equal?</p>		<p>(Any abnormality should be described fully.)</p> <p>(a) _____ (b) _____ (c) _____ (d) (i) _____ (ii) _____ (iii) _____</p>	

THE LIFE ASSURANCE POLICY

WHEREAS XYZ INSURANCE COMPANY LIMITED, hereinafter called the Company has received a Proposal and Declaration for Assurance which Proposal and Declaration with the statements contained and referred to therein the Proposer named in the Schedule hereto has agreed shall be the basis of this Assurance and has received the first premium for an Assurance of the amount on the terms stated in the said Schedule.

NOW THIS POLICY WITNESSETH that in consideration of the premium already received and on condition that there shall be duly paid directly to the Company or its Bankers only the subsequent premiums as stipulated for in the said Schedule, the Company will pay the sum assured to the person or persons to whom the same is therein expressed to be payable upon proof to the satisfaction of the Directors of the Company of the happening of the event on which the sum assured is to become payable in terms of the Schedule hereto of the title and identity of the person or persons claiming payment and of the correctness of the age of the life assured stated in the proposal if not previously admitted.

PROVIDED ALWAYS that this Policy shall be subject to the conditions and privileges and to the Memoranda, if any, hereupon endorsed or attached so far as applicable which are to be deemed part of the Policy together with the said Schedule.

AND PROVIDED ALSO that if anything averred in the Proposal and Declaration of the Assured and the Personal Statement if any made by the Life Assured before a medical examiner shall not have been truly and fairly stated or if any material information shall have been withheld, this Policy shall be void and all moneys received by the Company in respect thereof shall belong to the Company for its own benefit with the proviso that in the event of this Policy continuing in force for the full period of two years and the age of the Life Assured having been admitted, this Policy shall not thereafter be voided or liable to challenge on the ground of any such misstatement or nondisclosure unless the same have been fraudulent.

SCHEDULE

Policy No. and Date of Commencement of Risk	Plan of Assurance	Sum Assured and Method	Date and Mode of Payment	Other Particulars of the Policy
				Proposal No. Instalment of Life Premium P./A. (D.B.) Premium P./A. (D.&D.) Premium Disability Benefits Premium Extra Premium Age Date of Last Payment Date of Maturity

Name and Occupation of Life Assured

Date of this policy

CLASS OF ASSURANCE	Endowment Assurance with Profits
EVENT ON THE HAPPENING OF WHICH SUM ASSURED IS PAYABLE:	On the stipulated date of maturity if the Life Assured is then alive or at his/her death if earlier.
TO WHOM SUM ASSURED PAYABLE:	The Proposer or his/her Assigns or provid. Executors or Administrators or other Legal Representatives who should take out Representation to his/her estate or limited to the moneys payable under this Policy from any competent Court having Jurisdiction in the place where the moneys due under this Policy are made payable.
PERIOD DURING WHICH PREMIUM IS PAYABLE	Till the stipulated date of last payment or previous death of the Life Assured.
DATE WHEN EACH INSTALMENT OF PREMIUM IS PAYABLE:	On the stipulated due date in each month.
CURRENCY AND JURISDICTION:	All payments made to or by the Company shall be payable at the Company's Head Office in the lawful currency of the Republic of Kenya and any question of claim arising under this policy shall be decided according to the Law of the Republic of Kenya.
SPECIAL CONDITIONS:	See Annexures Memoranda, or endorsements if any.

IN WITNESS WHEREOF I, one of the Authorised Officers of the Company, have for and on behalf of the Company hereunto set my hand, on the date hereinbefore stated.

Examined by.....

POLICY CONDITIONS AND PRIVILEGES

1. **PAYMENT OF PREMIUM**—Premiums are payable annually in advance, but they may be paid by half-yearly, quarterly, monthly or four-weekly instalments. When premiums are payable oftener than once a year and the policy results into a claim before all the instalments of premium have fallen due for the current policy year, the unpaid instalments of premium for that year will be deducted from the sum assured at the settlement of claim.

2. **DAYS OF GRACE**—Thirty days of grace are allowed for the payment of each renewal premium; unless the premiums are paid within that time, the policy will lapse except as hereinafter provided. If the Life Assured dies during the days of grace before the premium is paid the sum assured will be payable after deduction of the premium due.

3. **PROOF OF AGE**—If the age declared by the life assured in the proposal for assurance is not established, evidence of age will be necessary to be furnished before any payment is claimed on this policy. An unintentional error in age will not invalidate the policy but the same will be rectified during the life time of the assured on payment of the accumulated difference between the premium for the correct age and original premium from the commencement of the policy up to the date of such payment with interest on each instalment of such difference at a rate fixed by the Company.

If the age of the life assured is found on his death or the happening of the event insured against to be unintentionally understated the sum assured and bonus additions thereto will be reduced to such amounts as nearly as may be, as would have been secured for the correct age at entry by the said premium, in which event the sum assured shall be the reduced amount and the bonus additions shall be reduced proportionately.

If at any time it is found that the correct age at entry of the life assured exceeded the maximum age specified in the Company's Rules in respect of the Table and Plan under which this policy is issued, the policy will be void and any payments made thereunder will be refunded without interest.

Should the age be proved to have been over-stated in the proposal, the excess of premium paid over the premium payable on the basis of the correct age to cover the sum assured will be refunded without interest.

4. **RISK OF WAR AND AVIATION**—Where a policy is effected without an extra for aviation or war risks the life assured is required to intimate to the Company before engaging in aviation or engaging in active service or proceeding to a zone of war-like operations and to pay such extra premium as may be determined by the Company failing which the liability of the Company will terminate except to the extent of the surrender value, if any.

Travelling as a fare paying passenger on an aircraft authorised by the regulations to carry passengers on recognised air routes will not be regarded as engaging in aviation.

5. **LAPSED POLICY AND OPTIONS**—This policy will lapse with forfeiture of premiums paid and be of no value whatsoever, if any due premium or any instalment thereof as stipulated in the schedule hereto is not duly paid, i.e. before the expiry of the period of days of grace for the payment thereof, save and except otherwise expressly provided herein.

6. **REVIVAL OF LAPSED POLICY**—If this policy should lapse it may be revived at any time provided that all overdue premiums with interest thereon at a rate fixed by the Company are paid and satisfactory proof of the Life Assured's continued eligibility for assurance is produced without expense to the Company.

7. **AUTOMATIC PAID-UP POLICY**—If any premium is not duly paid after at least three annual premiums have been paid, this policy, if in force, is automatically converted into a paid-up policy for a reduced amount payable in terms of and subject to the conditions applying to this policy provided such sum be not less than Shs. 250/-.

The paid-up value on such policy will be an amount bearing to the total sum assured the same proportion as the number of annual premiums paid on the policy bears to the number of annual premiums payable under the policy. In all other cases the paid-up amount will be quoted on application.

Bonuses, if any already declared and still attaching to the policy at the date of cessation of payment of the premium will remain attached to the paid-up policy but the policy will not participate in the profits declared thereafter.

8. **PAID-UP POLICY**—At any time after three years premiums have been paid the Company will, at the request of the legal owner, alter this policy so that no further premiums are payable and the sum assured is reduced to such a proportion of the original sum assured as the number of years' premiums paid bears to the number of yearly premiums payable hereunder, provided that no such alteration will be permitted if the reduced sum assured calculated in accordance with this policy condition would be less than Shs. 250/-.

9. **SURRENDER VALUE AND LOANS**—This policy if in force shall have a surrender value after two years' premiums have been paid; the amount of such value being guaranteed at not less than thirty five per cent of all premiums paid excluding any extra premiums, premiums for supplementary benefits and the first year's premium.

A loan may be obtained from the Company on a policy that has a surrender value for an amount not exceeding 95% of the surrender value nor less than Shs. 500/-, subject to satisfactory proof of title and on such terms as shall from time to time be decided by the Board of Directors.

10. **ASSIGNMENT**—This policy may be assigned but no assignment shall be binding upon the Company until written notice thereof filed at the Company's Head Office in Nairobi. The Company accepts no responsibility for the effect, sufficiency or validity of any such assignment. All assignments are subject to any indebtedness to the Company in respect of this policy.

11. **SUICIDE**—In the event of the death of the life assured by his own hands whether sane or insane or at the hands of justice for any crime committed within twelve months from the date of the commencement of the risk on the policy or from the date of the last renewal of the policy if any the policy shall be void and all payments made to the Company shall be forfeited provided however that the interest of the bona fide assignee for valuable consideration will be protected to the extent of his/her pecuniary interest (not exceeding the sum assured) if the notice of the assignment has been given to the Company at least one month prior to the date of the suicide or the date of the offence for which the life assured meets with death at the hands of justice as the case may be.

12. **HAZARDOUS OCCUPATION**—If the life assured engages himself in what is usually regarded as a hazardous occupation he should immediately inform the Company and pay such extra premium as the Directors may deem proper according to the circumstances of each case.

ACCIDENT BENEFITS

Covering Death, Loss of Sight, Dismemberment or Disability Caused by Accident

as Herein Limited and Provided

XYZ INSURANCE COMPANY

(hereinafter called the Company)

does hereby insure the person named as the Insured on the Policy Specification Schedule to which this Supplementary Contract is attached, such person being herein also called the Insured, subject to the provisions herein contained.

THE PRINCIPAL SUM provided hereunder is the Face Amount of Insurance stated on the Policy Specification Schedule to which this Supplementary Contract is attached

THE ANNUITY provided hereunder is 10% of the Principal Sum -- 10 year limit

THE WEEKLY INDEMNITY provided hereunder is 5 per 1000 of Principal Sum.

THIS SUPPLEMENTARY CONTRACT is issued in conjunction with but does not form a part of the Policy to which it is attached and is valid only if the above Supplementary Contract Form and Serial Numbers are stated on the Schedule of the said Policy or are endorsed on said Policy. It is issued on the life of the Insured stated on the Schedule of the said Policy (herein also called the Insured) in consideration of the premium applicable to this Supplementary Contract shown on the Schedule of the said Policy or in an endorsement thereto.

If, while this Supplementary Contract is in force, the Insured shall sustain bodily injury effected directly and independently of all other causes through external, violent and accidental means of which, except in the case of drowning or of internal injury revealed by an autopsy, there is evidence of a visible contusion or wound on the exterior of the body (hereinafter referred to as "such injury"), the Company, on receipt and approval of proofs, will, subject to the provisions and conditions contained herein or which may be endorsed hereon, pay an indemnity according to the following Schedule of Indemnities, but only one of the amounts specified in Items 1 to 7 inclusive, the larger, will be paid for injuries resulting from one accident.

SCHEDULE OF INDEMNITIES.— If "such injury" alone shall, within 90 days from the date of accident, cause:—

- 1. Loss of Life The Principal Sum
- 2. Loss of two or more Limbs by amputation at or above Wrists or Ankles. The Principal Sum
- 3. Total and irrevocable loss of sight in both Eyes. The Principal Sum
- 4. Total and irrevocable loss of sight in one Eye and loss of one Limb by amputation at or above Wrist or Ankle The Principal Sum
- 5. Loss of one Limb by amputation at or above Wrist or Ankle One-Half The Principal Sum
- 6. Total and irrevocable loss of sight in one Eye One-Third The Principal Sum
- 7. Loss of Thumb and Index Finger of either Hand by amputation at or above the metacarpo-phalangeal joints. One-Fourth The Principal Sum

Or, if "such injury" shall not result in any of the losses mentioned above in Items 1 to 7 inclusive, but alone shall cause:—

- 8. Temporary, total and continuous disability and prevent the Insured from date of accident from performing any and every duty pertaining to his occupation, during such disability. } The Weekly Indemnity
- 9. Partial disability and prevent the Insured from date of accident or immediately following total disability under Item 8 above from performing one or more duties pertaining to his occupation during such disability } One-Fourth of the Weekly Indemnity
- Provided that the total of the period for which weekly indemnities may be paid under Item 8 and/or Item 9 of this Schedule shall not exceed fifty-two weeks in respect of any one accident calculated from the date thereof; and further provided that disability of less than one week's duration shall not be indemnifiable.
- 10. Permanent, total and continuous disability and prevent the Insured from engaging in any occupation or employment for wage or profit or from giving attention to any business whatsoever and provided that indemnity has been paid under Items 8 and/or 9 for fifty-two weeks the Company shall then pay, in equal monthly installments which shall be payable at the end of each month, during such permanent, total and continuous disability, but for a period not to exceed ten years } The Annuity

PASSENGER AVIATION INDEMNITY.— The Company will pay an indemnity as provided in Items 1 to 10, inclusive, to the extent provided in this Supplementary Contract, for loss specified herein which, directly and independently of all other causes, shall result within ninety days from the date of accident from injuries sustained while the Insured is a passenger in an aircraft operated by a commercial passenger airline on a scheduled air service over an established passenger route.

DOUBLE INDEMNITY.— The amount payable in above Items 1 to 10, inclusive, shall be doubled if "such injury" is sustained: (a) while the Insured is riding as a passenger within any mechanically propelled Non-aerial Public Conveyance which a Common Carrier then operates and regularly despatches for hire over an established land transportation route in a regular passenger service; or (b) while riding as a passenger in a regular Passenger Elevator Car (elevators in mines excluded); or (c) in consequence of the burning of any Theatre, Hotel or other Public Building in which the Insured shall be at the commencement of the fire.

WAIVER OF PREMIUM.— Should the Insured become entitled to indemnity under Item 2, 3, 4, or 10 of the above Schedule of Indemnities, the Company will waive all premiums on the Policy aforesaid which fall due after such indemnity has been awarded. In case a Total and Permanent Disability Supplementary Contract is also attached to and in force with said Policy, then the Waiver of Premium benefits, specified in the aforesaid Supplementary Contract in respect of total permanent disability resulting from bodily injury, instead of the Waiver of Premium Clause specified in this Supplementary Contract, shall apply.

QUARANTINE INDEMNITY.— If the Insured, as a direct and exclusive result of Quarantine Regulations, be detained and prevented from following his usual occupation and business or giving any attention thereto whatsoever, and provided the Insured is not suffering from the disease which has necessitated the Quarantine, the Company will pay him a sum equal to the amount of the Weekly Indemnity above specified, for the period of such detention, but not to exceed a period of four consecutive weeks for any one such detention.

The conditions which are printed on the back hereof are part of this Supplementary Contract as fully as if stated over the Signatures hereto affixed.

The Date of this Supplementary Contract shall be the Policy Date of the Policy unless a different Supplementary Contract Date is shown here.

SUPPLEMENTARY CONTRACT AND APPLICATION CONSTITUTE ENTIRE CONTRACT— This Supplementary Contract with the application therefor, copy of which is contained in the Policy to which this Supplementary Contract is attached, shall constitute the entire contract between the parties. No statement made by the applicant for insurance not included in said application shall avoid this Supplementary Contract or be used in any legal proceeding hereunder. No agent has authority to change this Supplementary Contract or to waive any of its provisions. No change in this Supplementary Contract shall be valid unless approved by an executive officer of the Company and such approval be endorsed hereon.

CHANGE OF OCCUPATION TO GREATER HAZARD.— No reduction shall be made in any indemnity herein provided by reason of change in the occupation of the Insured or by reason of his doing any act or thing pertaining to any other occupation.

NOTICE OF CLAIM.— Written notice of injury on which claim may be based must be given to the Company within twenty days after the date of the accident causing such injury. In the event of accidental death, immediate notice thereof must be given to the Company. Such notice given by or in behalf of the Insured or Beneficiary, as the case may be to the Company at its Office specified on the Schedule of said Policy or to any authorized agent of the Company, with particulars sufficient to identify the Insured shall be deemed to be notice to the Company. Failure to give notice within time provided in this Supplementary Contract shall not invalidate any claim if it shall be shown not to have been reasonably possible to give such notice and that notice was given as soon as was reasonably possible.

PROOF OF LOSS. The Company, upon receipt of such notice, will furnish to the claimant such forms as are usually furnished by it for filing proofs of loss. If such forms are not so furnished within fifteen days after the receipt of such notice, the claimant shall be deemed to have complied within the requirements of the Supplementary Contract as to proof of loss upon submitting within the time fixed in the Supplementary Contract for filing proofs of loss, written proof covering the occurrence, character and extent of the loss for which claim is made.

FILING PROOF OF LOSS.— Affirmative proof of loss must be furnished to the Company at its said office in case of claim for loss of time from disability within ninety days after the termination of the period for which the Company is liable, and in case of claim for any other loss, within ninety days after the date of such loss.

MEDICAL EXAMINATION.— The Company shall have the right and opportunity to examine the person of the Insured when and so often as it may reasonably require during the pendency of claim hereunder, and also the right and opportunity to make an autopsy in case of death where it is not forbidden by law.

SETTLEMENT OF CLAIM.— All indemnities provided in this Supplementary Contract for loss other than that of time on account of disability will be paid immediately after receipt of due proof. Upon request of the Insured and subject to due proof of loss all accrued indemnity for loss of time on account of disability will be paid at the expiration of each four weeks during the continuance of the period for which the Company is liable, and any balance remaining unpaid at the termination of such period will be paid immediately upon receipt of due proof.

PAYMENT OF INDEMNITIES.— Indemnity for loss of life of the Insured is payable to the Beneficiary under the Policy to which this Supplementary Contract is attached, if surviving the Insured, and otherwise the estate of the Insured. All other indemnities under this Supplementary Contract are payable to the Owner of the Policy.

LEGAL PROCEEDINGS.— No action at law or in equity shall be brought to recover on this Supplementary Contract prior to the expiration of sixty days after proof of loss has been filed in accordance with the requirements of this Supplementary Contract, nor shall such action be brought at all unless brought within two years from the expiration of the time within which proof of loss is required by the Supplementary Contract.

RENEWAL.— This Supplementary Contract may be renewed with the consent of the Company from term to term by the payment of the premium in advance at the Company's premium rate in force at time of renewal. A grace period of thirty one days shall be granted for payment of any premium after the first, and during this period of grace the Insurance under this Supplementary Contract shall continue in force. If, at the expiration of the grace period, any premium due and payable under this Supplementary Contract shall not have been paid and the Automatic Premium Loans provision of the Policy to which this Supplementary Contract is attached is effective, the said provision shall apply to the premium hereunder.

TERMINATION.— The Insurance under this Supplementary Contract shall automatically terminate: (a) if any premium on this Supplementary Contract or on the Policy to which it is attached is not paid when due or within the grace period, (b) if said Policy is surrendered or converted under the Options, if any, quoted in the "If Premium Payment is Discontinued" provisions of said Policy or (c) on the anniversary date of said Policy nearest to the sixty-fifth birthday of the Insured. Termination of this Supplementary Contract by the Insured or by the Company shall be without prejudice to any claim arising prior to such termination. Whenever this Supplementary Contract shall be terminated, the additional premium therefor shall no longer be payable and there shall be no value on account thereof except for the return of the unearned portion, if any, of such premium paid which covered the period during which termination became effective, together with any additional premiums paid which fall due after termination. The Subsequent payment or acceptance of any premium hereunder shall not create any liability unless this Supplementary Contract is reinstated but the Company shall refund any such premium.

REINSTATEMENT.— If default be made in payment of the agreed premium for this Supplementary Contract, the insurance hereunder may be reinstated with the consent of the Company but only if the Policy to which this Supplementary Contract is attached is in full force with no premium in default thereon. Such reinstatement shall only cover loss resulting from accidental injury thereafter sustained.

RISKS EXCLUDED.— The insurance under this Supplementary Contract shall not cover any loss or disability caused directly, or indirectly, wholly or partly, by (a) self-destruction or any attempt thereat while sane or insane, (b) war, declared or undeclared, strikes, riots, civil war, revolution, or any warlike operations, (c) military, naval or air force service in time of declared or undeclared war or while under orders for warlike operations or restoration of public order, (d) making an arrest as an officer of the law, (e) assault or murder or any other violation or attempt of violation of the law or resistance to arrest, (f) heatstroke or sunstroke, (g) participation in any brawl, (h) racing on wheels, (i) pregnancy or childbirth, (j) accident occurring while or because the insured is affected by alcohol or any drug, (k) hernia, ptomaines or bacterial infection (except pyogenic infection which shall occur with and through an accidental cut or wound), (l) any disease or sickness, (m) poison, gas or fumes, (n) voluntarily or involuntarily taken under the Passenger Aviation Indemnity provision of this Supplementary Contract.

NON-PARTICIPATION.— This Supplementary Contract shall be non-participating and shall not share in the surplus earnings of the Company.

Upon the occurrence of any of the losses described in Items 1 to 7 inclusive of this Supplementary Contract, all insurance hereunder shall immediately cease as to injury from any subsequent accident.

Specimen

ACCIDENT AND DISABILITY BENEFITS

A. ACCIDENT BENEFIT:

If at any time when this policy is in full force and effect the Life Assured, before the expiry of the period for which the premium is payable or before the policy anniversary on which the age next birthday of the Life Assured is 60, whichever is earlier, shall sustain any bodily injury resulting solely and directly from accident caused by outward violent and visible means (except in the case of drowning or of internal injury revealed by autopsy) and such injury shall, within 90 days of its occurrence solely, directly and independently of all other causes result in the death of the Life Assured then the Company shall pay an additional sum equal to the sum assured payable on death as specified in the schedule to the policy, viz. Shs.
(Shillings

provided however that such additional sum payable in respect of this policy, together with any such additional sums payable under other policies on the life of the life Assured issued by the Company shall not exceed Shs. 500,000/- and provided no monthly instalments are being paid or premiums waived under the disability benefit.

B. DISABILITY BENEFITS:

If, while this policy is in force for the full sum assured the Life Assured, before the expiry of the period for which the premium is payable or before the policy anniversary on which the age next birthday of the Life Assured is 60 whichever is earlier becomes subject to a disability as hereinafter defined, and proves the same to the satisfaction of the Company as herein provided, the Company agrees:-

- (1) To pay in monthly instalments spread over 3 years an additional sum equal to the sum assured payable on death as specified in the policy, Viz. Shs
(Shillings

However, if the Life Assured dies before the expiry of the said period of 3 years as a consequence of the accident which has caused his (her) disability, the disability benefit instalments which have not fallen due will be paid together with the death benefit provided that such additional sum payable in respect of this policy together with any such additional sums payable under other policies on the life of the Assured issued by the Company shall not exceed Shs. 500,000/-.

- (2) To waive the payment of future premiums up to an assurance of Shs. 250,000/- Basic Sum on the following conditions:-

(a) The maximum aggregate limit of assurance under all policies issued by the Company on the same life to which the benefit of the waiver will apply shall not in any event exceed Shs. 250,000/- Basic Sum. If there be more policies than one and if the total assurance exceeds Shs. 250,000/- Basic Sum the waiver shall apply to the first Shs. 250,000/- Basic Sum assured in order of date of the policies issued. The premiums payable by the Assured after satisfactory proof of such disability is furnished to the Company shall be only for the assurance if any, exceeding the maximum aggregate limit of Shs. 250,000/- Basic Sum.

(b) The waiver of premium shall automatically extinguish:-

- (i) all options under this policy except as to such assurance if any as exceeds the maximum aggregate limit of Shs. 250,000/- Basic Sum and which may have been kept in force by continued payment of premiums, and

- (ii) the benefit covered by the 'Accident Benefit' Clause.

C. CONDITIONS AND PROVISIONS APPLICABLE TO ACCIDENT BENEFIT AND DISABILITY BENEFIT.

- (1) Provided further that the Company shall not be liable to pay Accident Benefit or Disability Benefit hereunder if the disability or death of the Life Assured shall:-

- (ii) be caused by intentional self-injury, attempted suicide, insanity or immorality or whilst the Life Assured is under the influence of intoxicating liquor, drug or narcotic; or
 - (iii) take place as a result of accident while the Life Assured is engaged in aviation or aeronautics in any capacity other than that of a fare-paying, part-paying or non-paying passenger in any aircraft which is authorised by the relevant regulations to carry such passengers and flying between established aerodromes, the Life Assured having at that time no duties on board the aircraft or requiring descent therefrom; or
 - (iii) be caused by injuries resulting from riots, civil commotion, rebellion, revolution, terrorism, war (whether war be declared or not), invasion, hunting, mountaineering, steeple-chasing, motor-cycle racing or pace-making either as a driver or passenger or racing of any kind (other than on foot); or
 - (iv) result from the Life Assured committing any breach of law; or
 - (v) arise from employment of the Life Assured in the armed forces or military service of any country at war (whether war be declared or not) or from being engaged in police duty in any military, naval or police organisation.
- (2) The disability above referred to must be disability which is the result of an accident and must be total and permanent and such that there is neither then nor at any time thereafter any work, occupation or profession that the Life Assured can ever sufficiently do or follow to earn or obtain any wages, compensation or profit.
- Accidental injuries which independently of all other causes and within ninety days from the happening of such accident, result in the irrecoverable loss of the entire sight of both eyes or in the amputation of both hands at or above the wrist or in the amputation of both feet at or above the ankles, or in the amputation of one hand at or above the wrist and one foot at or above the ankle, shall be deemed to constitute such disability.
- (3) Immediately after the happening of the disability full particulars thereof must be given in writing to the within-mentioned office of the Company together with the then address and whereabouts of the Life Assured and within ninety days after the happening of the disability there must be given to the within-mentioned office of the Company in the manner required by it, proof of disability satisfactory to the Company and without any expense to the Company, and thereafter similar proof must be given, as and when required by the Company, of the continuance of such disability. Any medical examiner nominated by the Company shall be allowed to examine the person of the Life Assured in respect of any disability claimed in such manner and at such times before and/or after the disability is accepted by the Company as the Company may require.
- (4) In the event of its being discovered at any time that a claim under Clause B has been wrongly admitted, all premiums falling due after the date of the Company's intimation to that effect shall be paid by the Assured to the Company and no further instalments of the Additional sum assured shall be paid as if no disability had occurred.

Any premiums wrongly waived or instalments of additional sum assured wrongly paid shall form a debt on this policy, recoverable with interest.

AUTHORISED OFFICIAL

APPENDIX 8C

RIDER

SUPPLEMENTARY CONTRACT

OPTION TO PURCHASE ADDITIONAL INSURANCE

Issued by
XYZ INSURANCE COMPANY

(hereinafter called the Company)

BASIC AMOUNT OF OPTION:

OPTION DATES:

Each of the policy anniversaries on which the Insured's age nearest birthday is 25, 28, 31, 34, 37 or 40.

EXPIRATION DATE

The policy anniversary on which the Insured's age nearest birthday is 40.

THIS SUPPLEMENTARY CONTRACT forms a part of the Policy to which it is attached and is valid only if the above Supplementary Contract Form and Serial Numbers are stated on the face of said Policy or are endorsed on said Policy. It is issued in connection with the life of the Insured, named on the Face of the Policy, in consideration of the application attached to the Policy and the premium applicable to the Supplementary Contract shown on the face of said Policy or in an endorsement thereto. The premium for this Supplementary Contract is payable under the same conditions as are stated in the Policy, except that the premium for this Supplementary Contract shall cease to be payable whenever this Supplementary Contract terminates.

THE COMPANY WILL PERMIT THE PURCHASE OF ADDITIONAL INSURANCE on the life of the Insured, without new evidence of insurability, on each of the Option Dates shown above, provided that on the date of such purchase this Supplementary Contract and the policy to which it is attached are in full force with no premiums in default. Such purchase shall be subject to the following conditions:

- (1) Proper written application for any additional insurance to be purchased under this Supplementary Contract and settlement for the full first premium on such additional insurance shall be submitted to the Company at its Office either on the Option Date as of which the additional insurance is being purchased or within 60 days prior thereto. The effective date of such additional insurance shall be the Option Date as of which the insurance is being purchased but only if the Insured is living on such Option Date and if all conditions of this Supplementary Contract are met. The application for additional insurance must be for a plan of level whole life or endowment insurance written by the Company on the Option Date for the amount of the additional insurance.
- (2) The face amount of the additional insurance which may be purchased on each of the Option Dates shall be the Basic Amount of Option. The right on any particular Option Date to purchase additional insurance equal to the Basic Amount of Option shall expire if not exercised on or before that Option Date, but such expiry shall not affect the right, if any, on each subsequent Option Date to purchase additional insurance equal to the Basic Amount of Option.
- (3) The policy for the additional insurance shall be issued on the form and at the premium rates in use by the Company in the area where the Insured is residing at the effective date of the new policy. The premiums shall be based on the then attained age nearest birthday of the Insured, the plan and face amount of the new policy, and the mortality classification of the policy to which this Supplementary Contract is attached. Any restriction contained in the Policy to which this Supplementary Contract is attached shall be contained in the new policy.
- (4) Any agreement attached to the new policy granting benefits in addition to the coverage afforded by the basic plan, including but not limited to benefits in the event of total and permanent disability or death by accidental means, may be included only with the consent of the Company and upon payment of such additional charge as the Company may determine.

SUPPLEMENTARY CONTRACT

ADDITIONAL LEVEL TERM INSURANCE

Issued by

XYZ INSURANCE COMPANY

This Supplementary Contract forms a part of the Policy to which it is attached. It is issued on the life of the Insured stated on the face of said Policy (herein also called the Insured) in consideration of the application for this Supplementary Contract, either in the application for said Policy or subsequently in a form satisfactory to the Company, and payment of the additional premium applicable to this Supplementary Contract as stated on the face of said Policy or in an endorsement thereto.

The Company agrees to pay to the beneficiary or beneficiaries of record of said Policy, in addition to the amount otherwise payable according to the terms of said Policy, a sum equal to the Face Amount of insurance stated below upon receipt of due proof that the death of the Insured has occurred prior to the Expiry Date shown below.

TERMINATION OF INSURANCE. The insurance under this Supplementary Contract shall automatically terminate:

1. On the Expiry Date of this Supplementary Contract or on previous conversion of this Supplementary Contract as set forth in the provisions entitled "Conversion Privilege."
2. If any premium on said Policy or on this Supplementary Contract is not paid when due or in the grace period allowed under said Policy.
3. If said Policy is surrendered for its Cash Value or continued as reduced paid up insurance or as Extended Term Insurance under the provisions of said Policy, or is otherwise terminated.

Whenever this Supplementary Contract shall be terminated, the additional premium therefor shall no longer be payable and there shall be no value on account thereof. The subsequent payment or acceptance of any premium hereunder shall not create any liability but the Company shall refund any such premium.

CONVERSION PRIVILEGE. At any time while this Supplementary Contract is in force prior to Total and Permanent Disability of the Insured, if a Supplementary Contract granting disability benefits is attached to the Policy, this Supplementary Contract may be surrendered to the Company in exchange for any new non-participating Life or Endowment Policy in use by the Company as of the date of surrender, issued at the same class of rating as this Supplementary Contract, of a Face Amount of insurance equal to or less than the Term Insurance provided hereunder (but not less than the minimum policy then issued by the Company for the plan selected) dated as of the date of surrender and at a premium according to the Company's rate then in use for the attained age of the Insured. The exchange will be made by the Company, without evidence of insurability, at any time up to the anniversary five years prior to the Expiry Date of this Supplementary Contract; evidence of insurability, including good health, satisfactory to the Company will be required for exchange thereafter.

The new Policy will be issued with benefit for Total and Permanent Disability Waiver of Premium, without evidence of insurability, only in the event that such benefit is in force under this Supplementary Contract at the date of Conversion.

AUTOMATIC CONVERSION. If on the anniversary five years prior to the Expiry Date, the Insured shall be receiving disability benefits provided under any Supplementary Contract attached thereto, this Supplementary Contract will be automatically converted to a non-participating Ordinary Life Policy issued at the same class of rating and for the same Face Amount of insurance as this Supplementary Contract, and at a premium according to the Company's rate in use at the date of such conversion for the attained age of the Insured. Any premium on the new policy falling due during the continuance of such disability will be waived.

SUPPLEMENTARY CONTRACT PART OF POLICY. This Supplementary Contract shall be part of said Policy and the provisions of said Policy are hereby referred to and made a part hereof, except that:

1. The provisions "If Premium Payment is Discontinued" and "Changes in Plan" as set forth in said Policy shall not be applicable to this Supplementary Contract.
2. If the Insured commits suicide, while sane or insane, within two years from the Supplementary Contract Date or from any reinstatement of the Supplementary Contract, the insurance hereunder shall be a sum equal to the premiums paid on this Supplementary Contract and no more.
3. This Supplementary Contract shall be incontestable after it has been in force during the lifetime of the Insured for a period of two years from the Supplementary Contract Date.

REINSTATEMENT. This Supplementary Contract may be reinstated, provided said Policy is in force with no premiums in default thereon, at any time within five years after default in payment of premium upon written application to the Company with the production of evidence of insurability, including good health, satisfactory to the Company, together with payment of overdue premiums with interest to the date of reinstatement at a rate of interest determined by the Company, compounded annually.

In addition to the provisions of the incontestable clause herein, this Supplementary Contract shall be contestable for two years following the date of any reinstatement, on account of fraud or misrepresentation of material facts pertaining to such reinstatement.

NON-PARTICIPATING. This Supplementary Contract will not share in the surplus earnings of the Company.

SUPPLEMENTARY CONTRACT DATE. The date of this Supplementary Contract shall be the Policy Date of the Policy unless a different Supplementary Contract Date is shown here.

FACE AMOUNT

EXPIRY DATE

MULTIPLE INCOME BENEFIT

Issued by
XYZ INSURANCE COMPANY

(hereinafter called the Company)

SPECIMEN

THIS SUPPLEMENTARY CONTRACT forms a part of the Policy to which it is attached and is valid only if the above Supplementary Contract Form and Serial Number are stated on the Face of said Policy or are endorsed on said Policy. It is issued on the life of the Insured stated on the Face of said Policy (herein also called the Insured) in consideration of the premium applicable to this Supplementary Contract shown on the Face of said Policy or in an endorsement thereto.

THE COMPANY AGREES to pay in accordance with the Beneficiary designation of the Policy and in addition to the amount otherwise payable according to the terms of the Policy, the Monthly Income stated below, upon receipt of due proof that the death of the Insured has occurred prior to the Expiry Date indicated below. The Monthly Income shall commence upon the date of said death and shall terminate with the last monthly payment due prior to the Expiry Date.

The Monthly Income Payments may be increased in any one year by such additional interest earnings as the Company may, at its discretion, declare.

In the event of the death of the payee while Monthly Income Benefits are being paid, future payments, if any remain, will be made to any duly designated contingent or successor payee living at the time of such death, or, if there are none then living, one lump sum payment of the Commuted Value of payments then remaining will be made to the Executors or Administrators of the payee who died while receiving the Monthly Income Benefits.

No beneficiary entitled to the payments or any part thereof provided by this Supplementary Contract shall have the right to commute, withdraw, surrender, encumber, alienate or assign the same upon any terms whatsoever unless by the written permission of the Owner.

If a payee entitled to receive the Monthly Income Benefits is other than a natural person taking in his or her own right, or if the Policy shall be subject to an Assignment, then in either case, the payments, if any, under this Supplementary Contract shall be commuted and paid in a single sum.

COMMUTED VALUE. Any commutation under this Supplementary Contract shall be computed on the basis of interest at the rate of 3% per annum. The Table of Commuted Values on the reverse page illustrates Commuted Values at 3% for full years to Expiry Date (actual commutation will be based on exact number of Monthly Income payments remaining).

CONVERSION PRIVILEGE. At any time while this Supplementary Contract is in force prior to Total and Permanent Disability of the Insured if a Total and Permanent Disability Supplementary Contract is attached to the Policy, it may be surrendered to the Company in exchange for a new Life or Endowment Policy issued at the same class of rating as this Supplementary Contract, for a face amount of insurance equal to or less than the Commuted Value of this Supplementary Contract at the time of such Conversion. The new policy will be issued as of the date of surrender upon any policy form, as limited above, in use by the Company as of the date of surrender at a premium according to the Company's rate then in use for the attained age of the Insured. The exchange will be made by the Company without evidence of insurability. The new policy will be issued with benefit for Total and Permanent Disability Waiver of Premium, without evidence of insurability, including good health, satisfactory to the Company, only in the event such benefit is in force under the Policy at the date of conversion.

TERMINATION OF INSURANCE. The Insurance under this Supplementary Contract shall automatically terminate:

- (1) On the Expiry Date of this Supplementary Contract.
- (2) If any premium on the Policy or on this Supplementary Contract is not paid when due or within the grace period allowed under the policy.
- (3) If the Policy is surrendered or converted under one of the Options, if any, given under the "If Premium Payment is discontinued" provision of the Policy or otherwise terminated.
- (4) If the Policy becomes paid up for its Face Amount.

Whenever this Supplementary Contract shall be terminated, the additional premium therefor shall no longer be payable and there shall be no value on account thereof except for the return of the unearned portion, if any, of such additional premium paid which covered the period during which termination became effective, together with any additional premiums paid which fall due after termination. The subsequent payment or acceptance of any premium hereunder shall not create any liability but the Company shall refund any such premium.

SUPPLEMENTARY CONTRACT PART OF POLICY. This Supplementary Contract shall be part of the Policy and the provisions of the Policy are hereby referred to and made a part hereof, except that:

- (1) The Provision "Other ways in which the Proceeds of this Policy may be paid" will apply only if the Commuted Value is payable upon the death of the Insured.
- (2) If the Insured shall die as a result of suicide within two years from the Date of Issue or from any reinstatement of this Supplementary Contract and while the Policy and this Supplementary Contract are in force, the liability of the Company hereunder shall be limited to the payment to the Beneficiary in one sum of the amount of premiums actually paid on this Supplementary Contract.
- (3) This Supplementary Contract shall be incontestable after it has been in force during the lifetime of the Insured for a period of two years from the Date of Issue or from any reinstatement of this Supplementary Contract.
- (4) This Supplementary Contract shall not be reinstated unless the Policy is in full force with no premiums in default thereon.
- (5) This Supplementary Contract shall be non-participating and shall not share in the surplus earnings of the Company during the lifetime of the Insured. After maturity additional interest earnings as provided above may be payable.

The Date of this Supplementary Contract shall be the Policy Date of the Policy unless a different Supplementary Contract Date is shown here.

Initial Monthly Income.....

Multiple Benefit.....Years

Expiry Date.....

APPENDIX 8F

PROGRESSIVE MULTIPLE INCOME BENEFIT

Issued by

XYZ INSURANCE COMPANY

(hereinafter called the Company)

THIS SUPPLEMENTARY CONTRACT forms a part of the Policy to which it is attached and is valid only if the above Supplementary Contract Form and Serial Number are stated on the Face of said Policy or are endorsed on said Policy. It is issued on the life of the Insured stated on the Face of said Policy (herein also called the Insured) in consideration of the premium applicable to this Supplementary Contract shown on the Face of said Policy or in an endorsement thereto.

THE COMPANY AGREES to pay, upon receipt of due proof that the death of the Insured has occurred prior to the Expiry Date indicated below, a Monthly Income which shall be equal to the Initial Monthly Income increased on each anniversary of the Supplementary Contract Date by 3½% of the prior year's amount. The Initial Monthly Income is stated below. The Monthly Income shall commence upon the date of said death and shall terminate with the last monthly payment due prior to the Expiry Date. Payment will be in accordance with the Beneficiary designation of the Policy and in addition to the amount otherwise payable according to the terms of the Policy.

The Monthly Income Payments may be increased in any one year by such additional interest earnings as the Company may, at its discretion, declare.

In the event of the death of the payee while Monthly Income Benefits are being paid, future payments, if any remain, will be made to any duly designated contingent or successor payee living at the time of such death, or, if there are none then living, one lump sum payment of the Commuted Value of payments then remaining will be made to the Executors or Administrators of the payee who died while receiving the Monthly Income Benefits.

No beneficiary entitled to the payments or any part thereof provided by this Supplementary Contract shall have the right to commute, withdraw, surrender, encumber, alienate or assign the same upon any terms whatsoever unless by the written permission of the Owner.

If a payee entitled to receive the Monthly Income Benefits is other than a natural person taking in his or her own right, or if the Policy shall be subject to an Assignment, then in either case, the payments, if any, under this Supplementary Contract shall be commuted and paid in a single sum.

COMMUTED VALUE. Any commutation under this Supplementary Contract shall be equal to the amount of Monthly Income payable on the date of death times the number of full months between the date of death and the Expiry Date.

CONVERSION PRIVILEGE. At any time while this Supplementary Contract is in force prior to Total and Permanent Disability of the Insured if a Total and Permanent Disability Supplementary Contract is attached to the Policy, it may be surrendered to the Company in exchange for a new Life or Endowment Policy issued at the same class of rating as this Supplementary Contract, for a face amount of insurance equal to or less than the Commuted Value of this Supplementary Contract at the time of such Conversion. The new policy will be issued as of the date of surrender upon any policy form, as limited above, in use by the Company as of the date of surrender at a premium according to the Company's rate then in use for the attained age of the Insured. The exchange will be made by the Company without evidence of insurability. The new policy will be issued with benefit for Total and Permanent Disability Waiver of Premium, without evidence of insurability, including good health, satisfactory to the Company, only in the event such benefit is in force under the Policy at the date of conversion.

TERMINATION OF INSURANCE. The Insurance under this Supplementary Contract shall automatically terminate:

- (1) On the Expiry Date of this Supplementary Contract.
- (2) If any premium on the Policy or on this Supplementary Contract is not paid when due or within the grace period allowed under the policy.
- (3) If the Policy is surrendered or converted under one of the Options, if any, given under the "If Premium Payment is discontinued" provision of the Policy or otherwise terminated.
- (4) If the Policy becomes paid up for its Face Amount.

Whenever this Supplementary Contract shall be terminated, the additional premium therefor shall no longer be payable and there shall be no value on account thereof except for the return of the unearned portion, if any, of such additional premium paid which covered the period during which termination became effective, together with any additional premiums paid which fall due after termination. The subsequent payment or acceptance of any premium hereunder shall not create any liability but the Company shall refund any such premium.

SUPPLEMENTARY CONTRACT PART OF POLICY. This Supplementary Contract shall be part of the Policy and the provisions of the Policy are hereby referred to and made a part hereof, except that

- (1) The Provision "Other ways in which the Proceeds of this Policy may be paid" will apply only if the Commuted Value is payable upon the death of the Insured.
- (2) If the Insured shall die as a result of suicide within two years from the Date of Issue or from any reinstatement of this Supplementary Contract and while the Policy and this Supplementary Contract are in force, the liability of the Company hereunder shall be limited to the payment to the Beneficiary in one sum of the amount of premiums actually paid on this Supplementary Contract.
- (3) This Supplementary Contract shall be incontestable after it has been in force during the lifetime of the Insured for a period of two years from the Date of Issue or from any reinstatement of this Supplementary Contract.
- (4) This Supplementary Contract shall not be reinstated unless the Policy is in full force with no premiums in default thereon.
- (5) This Supplementary Contract shall be non-participating and shall not share in the surplus earnings of the Company during the lifetime of the Insured. After maturity additional interest earnings as provided above may be payable.

The Date of this Supplementary Contract shall be the Policy Date of the Policy unless a different Supplementary Contract Date is shown here.

Initial Monthly Income.....KSH00.00

Multiple Benefit20Years

Expiry Date..... JANUARY 1, 1995

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