



**INSURANCE REGULATORY
AUTHORITY**

SITUATION ANALYSIS OF STANDARDIZED MOTOR INSURANCE
POLICIES IN KENYA: A CASE OF NAIROBI COUNTY

REPORT

BY

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July 2013

Acknowledgment

The author wishes to thank the Chief Executive officer of IRA for funding the project, the entire IRA research team for their valuable input and all the respondents who participated in the survey.

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DEFINITION OF TERMS

Old policy holders: Insurance consumers who have had policies for more than
two years

New policy holders: Insurance consumers who have had policies for one year
or less

EXECUTIVE SUMMARY

The process of standardizing insurance policy contracts was initiated in 2009 and focused on simplification of the wordings of insurance policies. As at June 2013 all long term business insurance policies, Motor Private, Motor Commercial (Carriage of Own Good) and Motor Commercial (PSV), Burglary, Domestic Package, Money and Public Liability and been standardized.

To help assess the standardization process and its implications to the insuring public, a survey was undertaken in three districts in Nairobi County focusing on assessing experiences of policyholders and focused on motor class. The survey mainly targeted owners of vehicles; descriptive research design was used in designing the survey and convenience sampling technique was used.

A total of 240 respondents were interviewed, 27% of the respondents had read their policy documents and some of the components they were looking for in the document were; risks covered, procedure of compensation, period of the cover, total value of the cover and excess charges to the policy holder among others.

Seventy three percent (73%) of the respondents had not read their policy documents and some of the reasons as to why they had not read were; they have never seen the document (28%), the agents explained everything to them hence no need for reading the document (24%) and they did not have time to read such a long document (23%) among others.

Fifty four percent of the respondents had comprehensive covers and were using their vehicles for personal use, carry own goods, carry passengers, taxi and hired to carry goods. 46% had third party only cover and used their vehicles as those with comprehensive covers.

Those who had bought policies for the first time after standardization stated that; the risks covered are properly stated in the document (82%), the document directly addresses them as policyholders (74%) and the fonts used in the document are large

(78%) which means standardization has improved on the policy document. They however pointed out that; the benefits of the cover are not sufficient (67%) and that the document is still long (88%).

The general level of clarity of the document was rated at 3.1 on a scale of 5 points by those who had bought policies after standardization which means the respondents were not able to conclude on the clarity of the whole document as some parts were rated clear while some were rated not clear.

Respondents who had had the policy document before and after standardization stated that some sections of the document had improved and were now better than they were before; the document now directly addresses them as a policyholders (90%), the risks covered are now clearly stated (80%) and the policy document is now printed in large fonts (77%) than before. They however pointed out that some sections of the documents had not improved and requested if they could be relooked at; wordings in the document are still not simpler to understand (49%) ,the limits of the risks covered (52%) and the benefits (53%) of the cover are not sufficient and the document is still long (88%).

The standardized policy document was overall rated as somehow clear by both the respondents who had bought their policies after standardization and those who had had policies before and after standardization implying that respondents' expectations have not been fully met by standardization of policies.

To improve the current policy document, the survey recommends the need to, translate the document to Kiswahili so that those who don't understand English can also be taken care of , shorten the document further, eliminate excess charges to be paid by the policyholders in case of an accident and reduce compensation period.In addition, although standardization is still an ongoing process, there need to sensitize the public on the need to read and understand the policy document before buying a cover

1.0 SURVEY INFORMATION

1.1. Background

Standardization is a mechanism for limiting regulatory costs since a minimum set of quality standards shall have been set. Standardization of insurance policies enables consumers to understand their rights and obligations in an insurance contract before buying insurance. It also helps minimize complaints. Understanding of the policies also enables the prospective customer make informed choices and helps build customers' confidence in the products thus encouraging insurance uptake.

In the past, before standardization, the Kenyan insuring public complained of challenges in understanding the wordings of the insurance policies. The policy documents were also found to be outdated and limiting. The scope of risks covered by various products was also unclear and confusing leading to miss-selling thus limiting the policyholders' compensation in their insured risks. This prompted the Insurance Regulatory Authority (IRA) in 2009 to embark on the process of standardizing insurance policy contracts. The objective of this standardization exercise was to ensure that the insurance cover provided by all insurers respond to the basic common needs of consumers.

Standardized motor insurance policies were given priority in this survey as most of the complaints received had been raised by policyholders from this type of insurance business.

1.2. The Research Problem

Standardization was meant to help the insuring public understand best the policy contracts before buying a cover. In order to help assess the standardization process and its implications to the insuring public, a situation analysis of these standardized policies was necessary.

1.3. Purpose/Relevance of the Research

Given that standardization of the insurance policies is expected to play an important role in enhancing insurance penetration, this survey sought to establish the views of policyholders on the standardized policies and get suggestions on how these policies can be improved further among other things. The survey stands to help IRA in establishing whether the standardization of policies done so far meets the consumer expectations.

1.4 Objectives of the Survey

The objective of the survey was to assess the market situation of the standardized Motor Insurance Policies. The specific objectives were:

1. To establish views of policyholders on the standardized policies
2. To document any standardization expectations by insurance consumers
3. Make policy recommendations based on the findings from objective 1 and 2

1.5. Scope of the Survey

The survey focused on assessing the standardized Motor Insurance Policies. It sought to assess views of policyholders on the standardized motor policy and get suggestions on how to improve the policies further. The survey focused on a sample of 240 motor vehicle owners from three selected districts in Nairobi County; Langata, Kasarani and Embakasi.

1.6. Limitations of the Survey

In this survey convenience sampling technique was used. The weaknesses of this technique are that there is sample bias and the sample is not representative of the entire population. This therefore means that generalization and inference about the entire population cannot be made through the findings of this survey. The findings can however be used to provide significant insight into the situation.

2.0 METHODOLOGY

2.1. Research Design

A Descriptive research¹ was used as it is usually the best method for collecting information that will demonstrate relationships and describe the situation as it exists.

2.1 Survey Areas

The survey was carried out in three districts of Nairobi County; Langata, Kasarani and Embakasi. It mainly targeted owners of vehicles.

2.2 Data collection

The data was collected through face to face interviews by use of structured questionnaires.

2.3 Sampling procedure

Convenience sampling technique was used as it was not possible to get the total population of those who owned cars in the districts under survey due to time constraint and therefore any car owner who was available was interviewed.

2.4 Data analysis and report writing

The questionnaires were edited, a code-list for open-ended questions was developed to facilitate coding of the open-ended questions; data was entered into Excel, cleaned and exported to SPSS for analysis. Results are presented in tables and charts.

¹"As the name implies, descriptive research methods are used when *the researcher wants to describe specific behavior as it occurs in the environment*. There are a variety of descriptive research methods available, and once again, the nature of the question that needs to be answered drives which method is used. Traditionally, descriptive research involves three main categories: *observation, case studies, and surveys*".

3.0 SURVEY FINDINGS

3.1 Profile of the respondents

Eighty three percent (83%) of the respondents were males and 17% were females. Most of the respondents were in the informal sector of employment (61%). Majority of the respondents (73%) were in the (25-44) age brackets and 86 % of the respondents had at least secondary level of education. **Figure 1** is a summary of the profile.

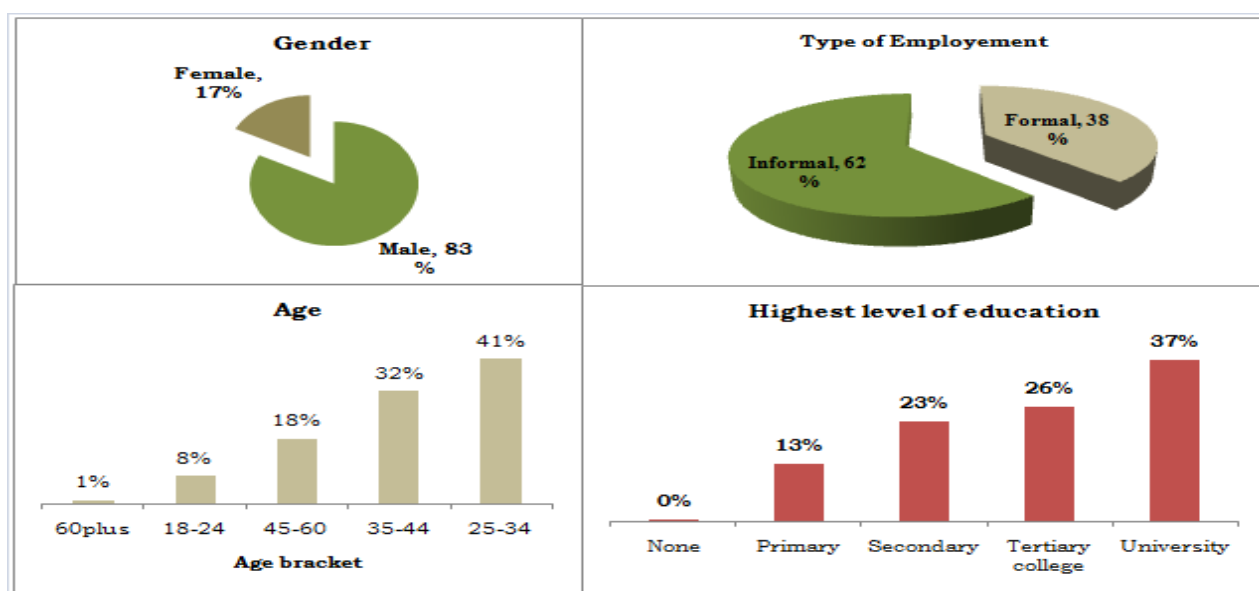


Figure 1: Characteristics of the sample

Source: survey data

Base: 240

3.2 Relationship of the type of cover and how the vehicle is used

Respondents were asked to indicate how their vehicles are used. The findings show that; respondents who had third party only cover (46%) used their vehicles in the same way as respondents who had comprehensive covers (54%); to carry goods, carry passengers and operate as taxi. **Table 1** is summary of the relationship between the type of cover and how the vehicle is used.

Table 1: Type of policy verses how the vehicle is used.

		How is your motor vehicle used				
		Personal use	Carry my own goods	Carry passengers	Taxi	Hired to carry goods
What type of motor policy do you currently have?	Comprehensive	74.8%	11.0%	3.1%	7.1%	3.9%
	Third party only cover	48.5%	12.1%	10.6%	12.1%	15.2%

Source: survey data

Base: 237

3.3 Duration of the cover

From the survey findings, most of the respondents (82%) had had the same policy covers for a period of two years and above, only 18% were having policy covers for the first time (for a period of one year and below). See figure 2.

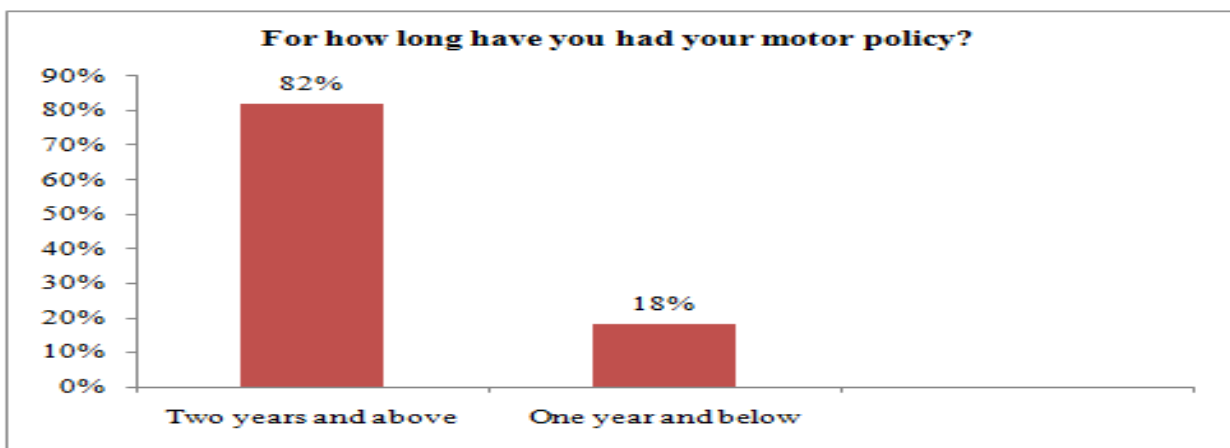


Figure 2: Period for having a motor policy

Source: survey data

Base: 237

3.4 Reading of the policy document

Only 27% of respondents had read their policy documents and some of the factors they looked for in reading the document were; Risks covered(22%), procedure for compensation in case of an accident (21%),Period of the cover (17%),total value of the cover (12%), excess charges to them as policyholders (7%), benefits of the cover (7%),my responsibility as a policy holder in case of an accident (5%), how soon the claims are settled (5%), premiums payable (3%) and warnings given to me in the document (1%). **Figure 3** presents the findings of what is mostly looked for while reading the policy document

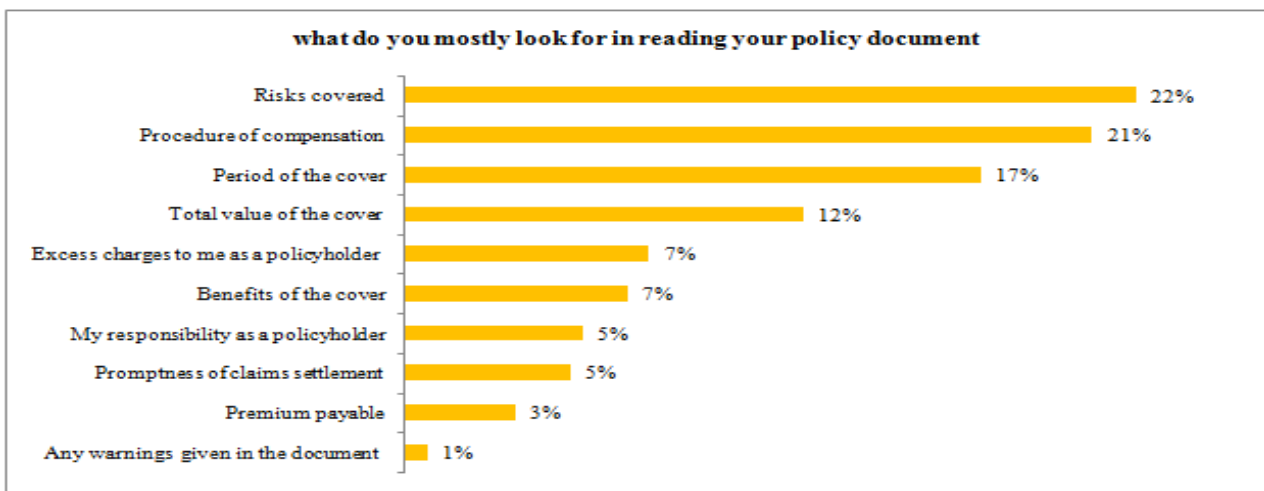


Figure 3: What do you look for when reading the policy document

Source: survey data

Base: 64

Seventy three percent (73%) had not read their policy documents. The reasons for not reading the policy documents were varied; I have never seen the document and I don't know whether I am suppose to have it when taking the sticker (28%),my agent explained everything to me hence I dint see the need of reading the document(24%), I have no time for such a lengthy document I am only interested in the sticker(23%), I normally send someone to buy it for me (13%), The language used is very technical (9%), I trust the insurance companies (1%), I will only read when I get an accident (1%) and Fonts are too small(1%) as shown in **Figure 4**.

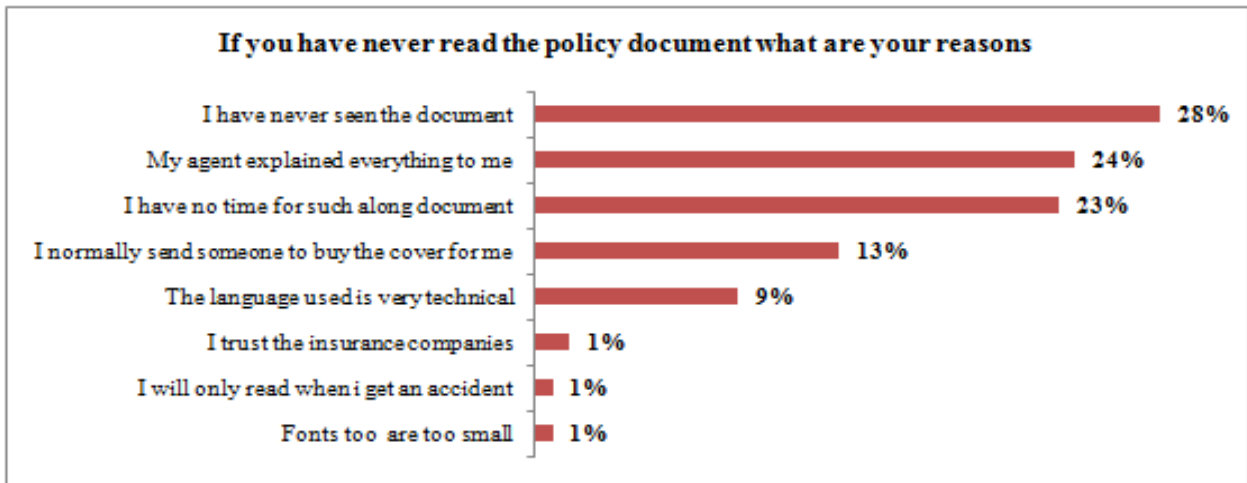


Figure 4: Reasons for not reading policy document

Source: survey data

Base: 173

3.5 EXPERIENCES WITH STANDARDIZED MOTOR POLICIES

3.5.1 Views of new policyholders on the Standardized Motor Insurance Policies

In order to know how the standardized motor policies are viewed by those having the policy for the first time (new policyholders), respondents who had had motor policies for less than one year and had read the document were asked to indicate the extent to which they agreed or disagreed with various statements regarding the standardised motor policies.

From the findings, respondents agreed that; the wordings of the standardised document are easy to understand (57%), the fonts used in the policy document were large (78%), the policy document directly addresses them as policy holders (74%), the risks covered are stated in the document (82%), the document is short (12%), the benefits of the cover are sufficient (33%), the document is not interesting to read (23%). See **Figure 5** for more details.

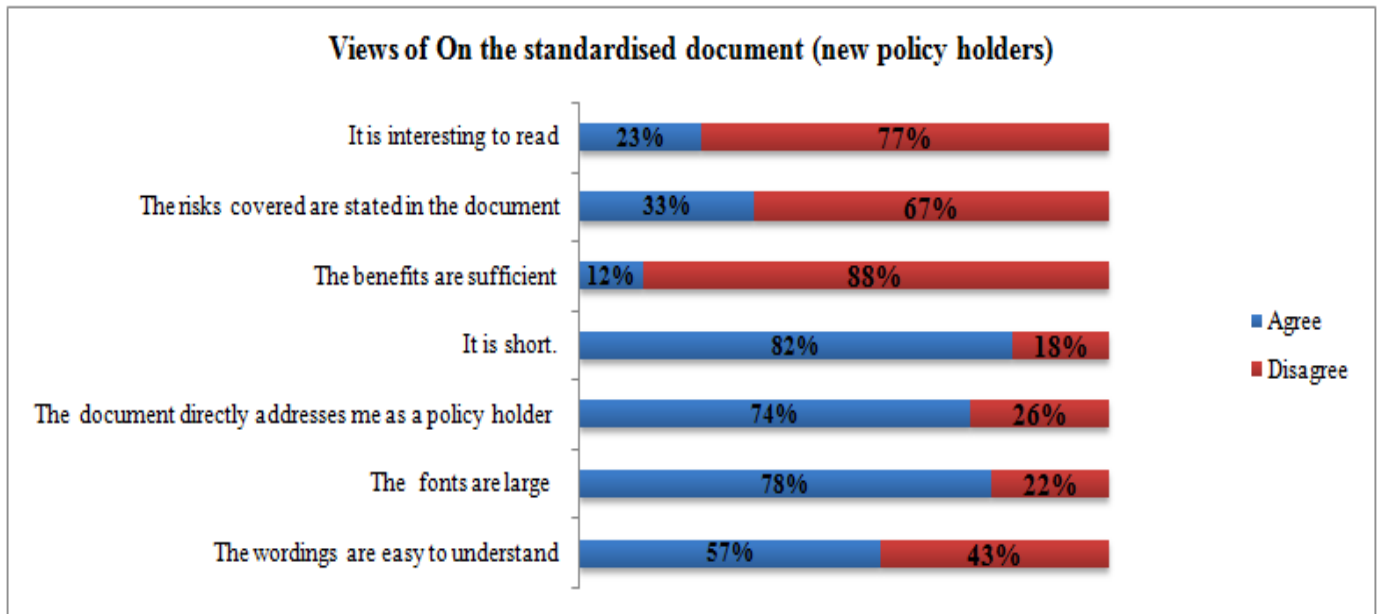


Figure 5: Views of on the standardized document (new policyholders)

Source: survey data

Base: 24

3.5.2 Clarity of the Standardized Motor policy

To sum up on the clarity of the document, respondents who had had motor policy for only one year and below and had read their documents were asked to rate the level of clarity of the policy document on a number of issues on a scale of one to five where 1=not clear at all, 2= somehow not clear, 3= not sure, 4= somehow clear and 5= clear.

In order to make inferences based on the scale, the higher the mean score the clearer the statement was considered to be and vice versa.

The general level of clarity of the document was rated at 3.1 which imply the respondents were not able to conclude on the clarity of the whole document as some parts were rated clear while some were rated not clear. See **table 3** for a summary of the clarity of the policy document.

Respondents stated that the following components of the standardized policy document were clear and needed not to be adjusted in any way as they met their

expectations ; the period for which the premium is payable (mean score=4.7) and when the cover begins and when it ends (mean score=4.5). Respondents however pointed out that the following components of the policy document were not clear and needed some adjustments; Consequences of non-payment of premiums (mean score=2.6), Warnings to the policy holder (mean score=2.2), The type of charges to be deducted from the quoted premium (mean score=2.2), The level of charges to be added to the quoted premium (mean score=2.3) and Charges to be paid directly by me as a policy holder (mean score =2.8).

Table 2: Clarity of the standardized motor policy document

STATEMENTS	Mean scores
1. Consequences of late payment of premiums	3.1
2. Consequences of non-payment of premiums	2.6
3. Warnings to the policy holder	2.2
4. The type of charges to be deducted from the quoted premium	2.2
5. The level of charges to be added to the quoted premium	2.3
6. Charges to be paid directly by me as a policy holder	2.8
7. The period for which the premium is payable	4.7
8. When the cover begins and when it ends(The period of the cover)	4.5
Mean	3.1

Source: survey data

Base: 24

3.5.3 Views of policyholders who had used both the old and the standardized policies

Respondents who had used the old motor policies were asked to assess the standardized policies based on a range of variables.

From the findings, respondents agreed that; the risks covered are now clearly stated (80%), the wordings in the current policy document are now simpler to

understand (51%), the document now directly addresses them as policyholders (90%), the limits of the risks covered have now been increased (48%), the benefits in the cover have now been increased (47%), the policy document is now printed in large fonts than before (77%), the document is now easy to read than before (44%), the document is now easy to understand than before (51%) and only 17% the document is shorter than it was before (17%). **Figure 6** is summary of the findings.

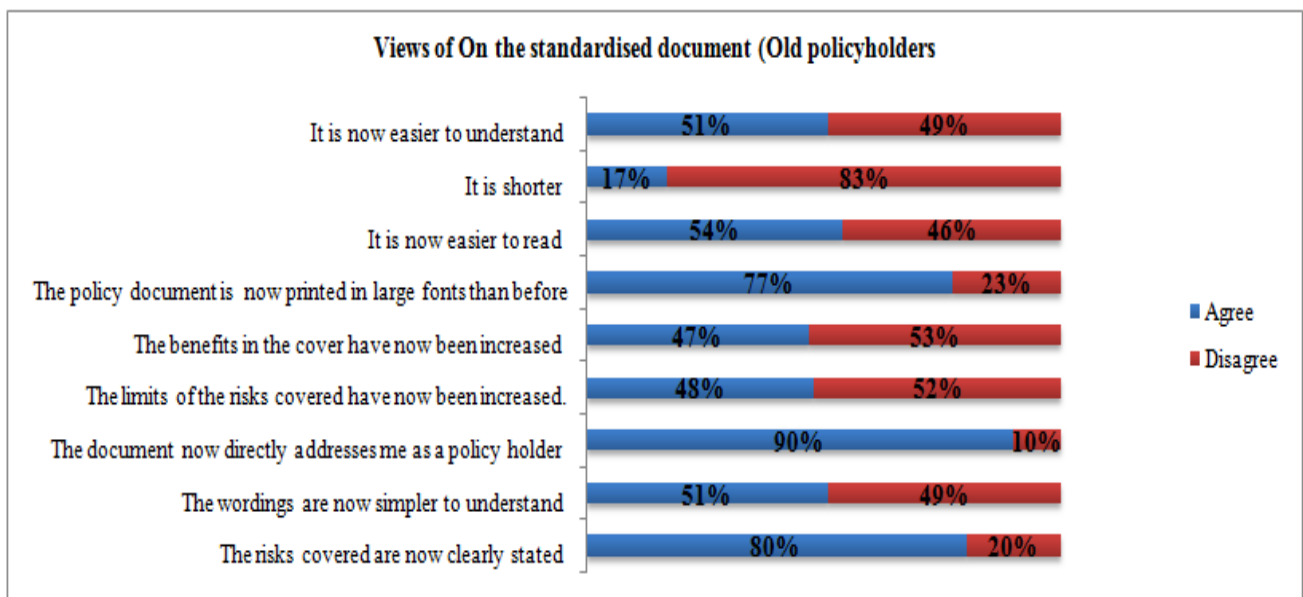


Figure 6: Views on the standardized policy document

Source: survey data

Base: 40

3.6 Suggested improvements to be made to the standardized Motor Policies

Respondents who had read their policy documents were asked to give suggestions to improve the current policy document and a number of suggestions were made; Thirty two percent (32%) of the respondents suggested that the document needs to be translated to Kiswahili so that those who don't understand English can also be taken care of, 14% indicated that the document should be shortened, 14% indicated that excess charges to be paid by policyholders in case of an accident should be eliminated, 14% indicated that

compensation period should be reduced and 11% suggested that risks in the document should be made clearer than they are today. **Figure 7** gives more details on suggestions to improve the current policy document.

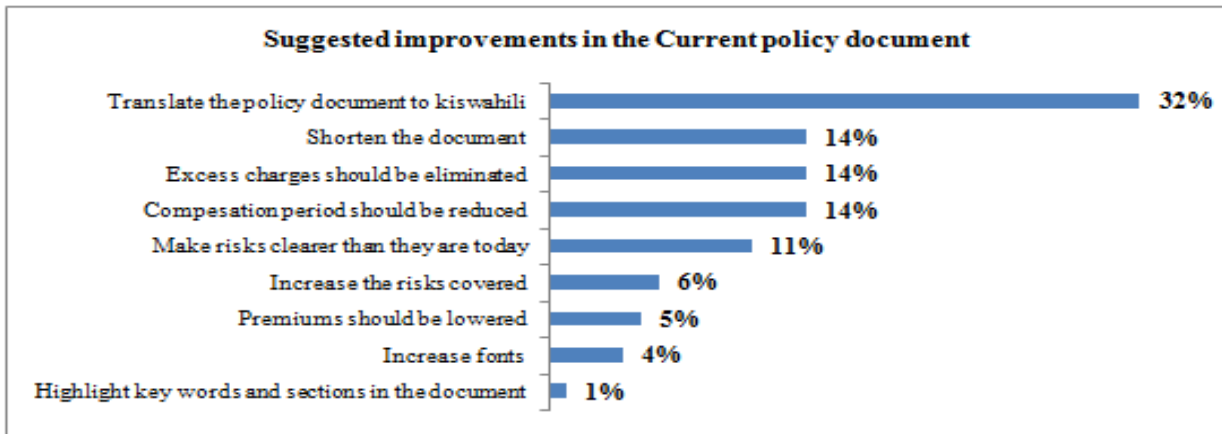


Figure 7: suggested improvements to be made in the standardized Motor Policies

Source: survey data

Base: 64

3.7 Overall rating of Clarity of the standardized motor policy document

In order to establish the overall clarity of the standardized motor policy document, respondents who had read their current policy documents were asked to rate the general clarity of the current policy document on a scale of one to three where 1=the document is not clear, 2=the document is somehow clear and 3= the document is clear.

On a **three** point scale the clarity of the document was rated at 2.1 which imply that the document is somehow clear, this could mean that for the document to be considered clear by policyholders some adjustments needs to be made especially on areas identified as having not been improved through standardization.

Fifty five percent (55%) of the respondents indicated that the document is somehow clear, 25% indicated that the document is clear and 20% indicated that the document is not clear. See **Figure 7** for a summary.

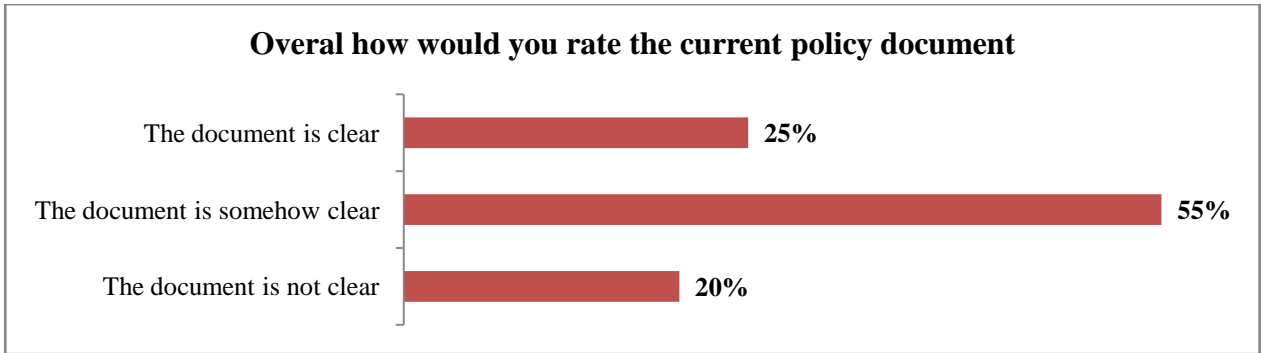


Figure 8: overall rating of the standardized Motor policy

Source: survey data

Base: 64

4.0 CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This survey sought to find views of policy holders on the Standardised Motor Insurance Policies or the current policy document.

From the findings, standardization has helped to improve some sections of the policy document; the risks covered are now clearly stated, the document now directly addresses policyholders and the policy document is now printed in large fonts. However if the document has to fully meet the expectations of the insuring public, some adjustments need to be done to components like; make the document shorter, translate the document to Kiswahili, reduce the charges to be incurred by policyholders in case of an accident and increase the risks covered and the benefits of the cover

Recommendations

In order to realize the full benefits of standardization, the survey findings, the following recommendations are made;

1. Intensify public education of consumers of insurance services on the need to read and understand the policy document before buying a cover is very crucial so as to prevent consumers from buying products that do not cover the risks they wanted covered.
2. The committee in charge of standardization should find a way of translating the policy documents into Kiswahili
3. There may be need to carry out a country wide survey as this survey only focused on three district in Nairobi county and hence the findings may not be used no present views of the entire insuring public.
4. There may be need to carry out a survey to assess the situation of other standardized policies as this survey only focused on standardized motor policies

APENDIX: SURVEY QUESTIONNAIRE



PROJECT BIMA 2 COUNTY SURVEY QUESTIONNAIRE

DATE: START TIME: END TIME:

INTRODUCTION

I am a research assistant collecting data on Situation Analysis of Standardized Motor Insurance Policies in Kenya on behalf of the Insurance Regulatory Authority (IRA). As a government agency to regulate, supervise and develop the insurance industry in Kenya, IRA is undertaking this study with aim of establishing the effect of the standardization and how policyholders perceive the new policies. It is expected that the information collected will help the Authority devise measures to help to enhance policy wordings for the benefit of policy holders.

Please feel free to participate in the survey by providing information being sought. Kindly note that the information you will provide will be treated as **CONFIDENTIAL** and will not be used for any other purpose other for the objectives of this research **ONLY**. The survey will not take more than 20 minutes.

May we proceed?

SECTION A: RESPONDENT'S PROFILE

A1. Respondent's Name (optional).....	
A2. Respondent's Tel. No. (Optional).....	
A3. Gender <input type="checkbox"/> Male <input type="checkbox"/> Female	A4. Age (in years) <input type="checkbox"/> 18 – 24 <input type="checkbox"/> 25 – 34 <input type="checkbox"/> 35 - 44 <input type="checkbox"/> 45 - 60 <input type="checkbox"/> 60+
A5. Highest level of education attained? <input type="checkbox"/> None <input type="checkbox"/> Primary education <input type="checkbox"/> Secondary school <input type="checkbox"/> Tertiary College <input type="checkbox"/> University	
A6. Type of your employment? <input type="checkbox"/> Formal Employment <input type="checkbox"/> Informal Employment	
A7. Specify the kind of employment	

SECTION B:

INSTRUCTIONS (TICK AS APPROPRIATE)

B1. Do you currently have a motor insurance policy?

Yes	
No	

B2. If yes in **B1**, what type of motor policy do you currently have?

Comprehensive	
Third Party Only cover	
Third Party Fire and Theft Cover	

B3. Is this the same policy you had last year?

Yes	
No	

B4. If no in **B3**, why did you change?

The policy expired	
I bought a different vehicle	
Other(specify)	

B5.For how long have you had motor policy? (In years)

--

B6.Have you ever read your policy document?

Yes	GO TO B7
No	GO TO B8

B7.If yes in **B6** what do you mostly look for in reading your policy document

i.
ii.
iii.

B8. If you have never read your policy documents, what are your reasons?

i.
ii.
iii.
iv.
v.

(INSTRUCTIONS TO THE INTERVIEWER)

If one year in **B5** answer **B9 and B10**. If two years and above go to **B11**

B9. To what extent do you agree or disagree with the following statements about the current policy document on a scale of 1 to 5 where 1=completely disagree, 2=Disagree, 3=Not sure, 4=Agree and 5=completely Agree, **(TICK AS APPROPRIATE)**

STATEMENTS	Completely disagree	Disagree	Not sure	Agree	Completely agree
1. The wordings in the document are easy to understand					
2. The document is printed in large fonts					
3. The document directly addresses me as a policy holder					
4. The document is short.					
5. The benefits in the cover are sufficient					
6. The risks covered are stated in the document					
7. The document is interesting to read					

B10. How would you rate the level of clarity of the following statements as stated in the current policy document on a scale of 1 to 5 where 1=Not Clear at all, 2=Somehow not Clear, 3=Not sure, 4=Somehow Clear and 5=Clear, **(TICK AS APPROPRIATE)**

STATEMENTS	Not clear at all	Somehow not Clear	Not sure	Somehow Clear	Clear
1. Consequences of late payment					
2. Consequences of non payment					
3. Warnings to the policy holder					
4. The type of charges to be deducted from or added to the quoted premium					
5. The level of charges to be deducted from or added to the quoted premium					
6. Charges to be paid directly by me as a policy holder					
7. The period for which the premium is payable					
8. When the cover begins and when it ends					

B11. To what extent do you agree or disagree with the following statements about the current policy document compared to the old policy document on a scale of 1 to 5 where 1=completely disagree, 2=Disagree, 3=Not sure, 4=Agree and 5=completely Agree.

(TICK AS APPROPRIATE)

STATEMENTS	Completely disagree	Disagree	Not sure	Agree	Completely agree
1. The risks covered are now clearly stated					
2. The wordings are now simpler to understand					
3. The document now directly addresses me as a policy holder					
4. The limits of the risks covered have now been increased.					
5. The benefits in the cover have now been increased					
6. The policy document is now printed in large fonts than before					
7. The current policy document is now easy to read					

8. The policy document is shorter					
9. Generally the current document is now easy to understand					

(INSTRUCTIONS TO THE INTERVIEWER)

‘The questions below should be asked to all respondents’

B12. Do you have any comments on how to improve the current policy document?
(TICK AS APPROPRIATE)

Yes	
No	
Not sure	

B13. If yes in **B12** what aspects?

i.
ii.
iii.
iv.

B14. Which of the following best describes how your motor vehicle is used?

Personal use	
Carry my own goods	
Carry passengers (PSV)	
Taxi	

Hire - goods	
Other(Specify)	

B16. Overall how would you rate the clarity of the current policy document? **(TICK AS APPROPRIATE)**

The document is not clear	
The document is somehow clear	
The document is clear	

B17. Do you have any other comments or observations on the current policy document?

i.
ii.
iii.
iv.

THANK YOU FOR PARTICIPATING IN THIS SURVEY. WE APPRECIATE YOUR FEEDBACK