

IRA

**GUIDELINES ON INSURANCE PRODUCTS
FOR INSURANCE COMPANIES AND
INTERMEDIARIES**

JUNE 2012

**TO: ALL REINSURANCE COMPANIES
ALL INSURANCE COMPANIES
ALL INSURANCE INTERMEDIARIES**

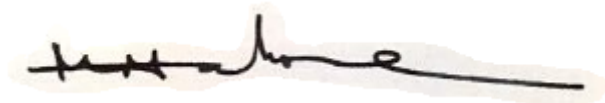
**RE: GUIDELINES ON INSURANCE PRODUCTS FOR INSURANCE
COMPANIES AND INTERMEDIARIES**

These Guidelines on Insurance Products are issued pursuant to Section 3A of the Insurance Act for observance by insurance companies and intermediaries.

These guidelines aim to ensure that insurance products sold by insurance companies and intermediaries are suitable to consumers, fairly priced and function as intended.

The guidelines offer guidance on principles to be adhered to in product design, pricing, marketing, disclosures and how applications for issuance of new and repackaged insurance products should be made to the Authority.

To this end, the Insurance Regulatory Authority hereby issues these Guidelines on Insurance Products to be effected from 1st July 2012.

A handwritten signature in black ink, appearing to read 'Sammy M. Makove', is written over a light-colored, irregularly shaped background that looks like a stamp or a piece of paper.

**SAMMY M. MAKOVE
COMMISSIONER OF INSURANCE & CHIEF EXECUTIVE OFFICER**

THE INSURANCE ACT (CAP 487)

**GUIDELINES TO THE INSURANCE INDUSTRY ON INSURANCE
PRODUCTS**

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1.0. Authorization

IN EXERCISE of the powers conferred by sections 3A (a), (b) and (g) of the Insurance Act, the Insurance Regulatory Authority (herein referred to as Authority) issues the Guidelines set out here below, for observance by all insurance companies and intermediaries registered under the Insurance Act Cap 487, in order to offer guidance on principles to be adhered to in product design, pricing, filing, marketing and disclosures.

2.0. Introduction

The Authority has received numerous complaints relating to various insurance products sold in the insurance market. These complaints arise due to inappropriate product design, poor pricing, mis-selling, and inadequate disclosures on vital information among others. In addition, it has come to the attention of the Authority that a number of insurance products have been launched and /or withdrawn to and/or from the market without the knowledge of the Authority.

The Authority, pursuant to its mandate to regulate, supervise and develop the insurance industry has therefore developed these Guidelines on Insurance Products.

These Guidelines offer guidance on principles to be adhered to in product design, pricing, marketing, disclosures and how applications for issuance of new and repackaged products should be made to the Authority.

The International Association of Insurance Supervisors, which is the body that sets standards for insurance supervision, requires insurers to take into account the interest of different types of customers when developing and marketing insurance products.

3.0. Definitions

“Authority” means Insurance Regulatory Authority

“Act” means the Insurance Act Cap 487, Laws of Kenya

“Customer” means a policyholder and/ or potential policyholder.

“Insurance Product” means a financial arrangement in which an insurer states its guarantee to pay a policyholder on covered events.

“Intermediary” means a person or legal entity that engages in insurance intermediation.

“Insurer” means insurance companies registered under the Insurance Act, Cap 487.

“New product” means an insurance product that is to be introduced in the market and has not been previously sold by an insurer.

“Repackaged product” means an existing insurance product that has been enhanced or varied.

4.0. Application

These guidelines shall apply to all insurers and intermediaries authorized by law to carry out insurance business under the Insurance Act CAP 487.

The insurer shall remain responsible for the acts of their intermediaries when selling insurance products since the legal responsibility rests on them. They must ensure compliance with these guidelines by all intermediaries carrying on insurance business as their agents.

5.0. Objectives

The main objectives behind these Guidelines are to ensure that;

- a) Insurance products are designed in a manner that ensures fair treatment of customers.
- b) The marketing and promotion of insurance products is done in a clear manner which is not misleading.
- c) Customers are given adequate, comprehensive and understandable information in a timely manner to enable them make informed decisions when purchasing insurance products.
- d) The interests of customers are taken into account when developing insurance products.
- e) Insurance products achieve the goal as intended during product design.
- f) Insurance products comply with the provisions of the Insurance Act and other applicable laws.

6.0. Product Design

6.1. Insurance product design is the process of creating a new and or enhancing an existing insurance product to be sold by an insurer/intermediary to its customers.

6.2. An insurer should take into consideration among others the following aspects when designing an insurance product;

- a) Setting a business case for new or enhanced product;
- b) Market testing and analysis;
- c) Cost/benefit analysis;
- d) Risk identification, assessment and mitigation;
- e) An implementation plan for the product, including milestones;
- f) Clearly defined and appropriate levels of delegation for approval of all material aspects of product design;
- g) Post-implementation review; and
- h) Methods for monitoring compliance with product design policies and procedures.

7.0. Pricing

- 7.1. The pricing of an insurance product involves the estimation of claims costs and other business costs arising from the product and the estimation of investment income arising from the investment of the premium income attaching to the product. Pricing risk occurs where the actual experience on claims, costs or investment returns arising from the sale of a product are different from what was assumed.
- 7.2. An insurer or intermediary should consider incorporating ongoing actuarial review and involvement in the pricing process and, where relevant, undertaking specific independent reviews of pricing for schemes and large or complex risks.
- 7.3. Furthermore, when pricing an insurance product, an insurer or intermediary (where applicable and in consultation with an insurer) should ensure that there;
 - a) are clearly defined and appropriate levels for review and approval of all material aspects of pricing;
 - b) is a process for the reflection of emerging experience in price adjustments;
 - c) is a profit and loss analysis which includes monitoring the effect of price movements on the bottom line;
 - d) is a process for the insurer's product pricing to respond to competitive and other external environmental pressures;
 - e) is a process for and the ability to monitor deviations of actual price from the technical underwriting pricing; and
 - f) is a method for monitoring compliance with pricing policies and procedures for proposed pricing variations.

8.0. Filing

- 8.1. Filing of insurance products involves giving notification to the Authority of intended launch and distribution of new and or repackaged products.

- 8.2. New or repackaged insurance products shall be filed with the Authority before commencement of sale or launch.
- 8.3. New or repackaged insurance product applications made to the Authority should contain the following documents;
- a) Formal application letter.
 - b) The policy wording documentation.
 - c) Proposal form.
 - d) Claim form.
 - e) Marketing brochure.
 - f) Premium rating structure explicitly showing expenses and commissions (both reinsurance and payable to direct intermediaries)/Actuary's report for life insurance products.
 - g) Reinsurance agreement/statement.
 - h) Product Business plan (at least three years).
 - i) Agreement between an intermediary and an insurer where there is significant collaboration in product design, pricing and marketing of an insurance product.
 - j) Any other relevant information.
- 8.4. The Actuary's report (where applicable) shall include a disclosure on assumptions used including commissions, expenses and mortality rates. If the product is relatively new with limited historical experience, the actuarial report shall disclose the fact and indicate the assumptions made to cater for the lack of appropriate historical experience. The actuarial review should also comment on the adequacy of the reinsurance arrangements to be adopted on the product.
- 8.5. The proposal form, claim form and marketing brochure of a new or repackaged insurance product shall bear the name of the insurer.
- 8.6. Where a new or repackaged insurance product has been designed and developed through collaboration between an insurer and an intermediary, and where the insurance product is branded and marketed by the intermediary, the name of the insurer shall appear prominently in the marketing material.

8.7. The insurer shall only launch and/or issue an insurance product upon receipt of a letter of no objection from the Authority.

9.0. Marketing

9.1. Marketing involves promotion of insurance products or services by an insurer or intermediary in a manner that is clear, fair and truthful.

9.2. The insurer shall be responsible for providing information that is accurate, clear and truthful not only to customers but also to intermediaries who may rely on this information in providing advice to customers.

9.3. The information provided shall:

- a) be easily understandable; and where the customer is unable to understand, further information shall be provided.
- b) be consistent with the result reasonably expected to be achieved by the majority of customers of that product;
- c) state prominently the basis for any claims or benefits and any significant limitations;
- d) not hide, diminish or obscure important statements or warnings; and
- e) be consistent with the terms and conditions of their application to the Authority.

9.4. If an insurer or intermediary becomes aware that the information provided is not accurate and clear or is misleading, it shall withdraw the information and notify any persons that it knows to be relying on the information as soon as reasonably practicable.

9.5. Every insurer and /or intermediary shall take steps to ensure that any advertising and promotional material is consistent with the terms and conditions of their application to the Authority.

10.0. Disclosures

10.1. Disclosure involves provision of appropriate and adequate information.

10.2. The insurer or intermediary shall take reasonable steps to ensure that a customer is given appropriate information about a policy in good time and in a comprehensible form so that the customer can make an informed decision about the arrangements proposed.

10.3. The insurer or intermediary shall ensure that;

- a) Customers are appropriately informed before and at the point of sale to ensure that they make informed decisions before entering into a contract.
- b) Information provided is clear, fair and truthful.
- c) Product information shall be provided in writing or any other durable medium.
- d) Product features disclosed shall among others include the name of the insurer, type of insurance contract on offer including benefits, level of premium, period for which the premium is payable and consequences of late or non-payment of premiums.
- e) Where a product is a bundled product, the premium for each benefit (both main and supplementary) shall be disclosed separately.
- f) The type and level of charges to be deducted from or added to the quoted premium shall be disclosed.
- g) A description of the risk covered by the insurance product and any excluded risks shall be disclosed.
- h) Prominent and clear information on significant or unusual exclusions or limitations such as excesses, surrenders, moratorium periods, deferred payment periods and exclusion of certain conditions, diseases or pre-existing medical conditions shall be disclosed.
- i) Illustrative surrender values showing what would be payable in the first three years if the policy is surrendered shall be disclosed.

j) Upon request an intermediary shall disclose the amount of commission and, or fee paid by the insurer under any relevant insurance product the customer is buying.

10.4. The intermediary and or customer shall disclose to the insurer all material facts relating to the risk exposure being insured.

11.0. Reporting

11.1. Insurers shall submit annual reports to the Authority on the performance of each new or repackaged product filed, for at least three years, using the attached templates (See Annexure).

11.2. Intermediaries offering insurance products as agents of foreign insurers in Kenya shall submit annual reports to the Authority on the performance of each new or repackaged product filed, for at least three years, using the attached templates (See Annexure).

11.3. The Authority may call for additional information relating to insurance products offered by insurers and intermediaries (where applicable).

12.0. Withdrawal

12.1. An insurer and or intermediary who intends to withdraw any insurance product shall be required to;

a) notify the Authority of the intention to withdraw the insurance product from the market including reasons for the withdrawal; and

b) satisfy the Authority that it has put in place sufficient measures to protect the interests of the existing policyholders.

- 12.2. The Authority may at its discretion require the insurer and or intermediary to notify the public of the withdrawal of an insurance product from the market.
- 12.3. The Authority reserves the right to withdraw or terminate the issuance of an insurance product to customers.

13.0. Enforcement

- 13.1. The Insurance Regulatory Authority shall enforce these guidelines against insurers and intermediaries.
- 13.2. The Authority shall enforce compliance to these guidelines by exercising its powers to any person who contravenes the guidelines or take any other measure as prescribed in the Insurance Act.

14.0. Effective Date

Effective date: 1st July 2012

15.0. Enquiry

Enquiries on any aspect of these guidelines should be referred to;

Address: **The Technical Manager,
Insurance Regulatory Authority,
P.O. Box 43505-00100,
Nairobi.**

Telephone: **+254 20 4996000**

Facsimile: **+254 20 2710126**

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Bima Bora Kwa Taifa

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16.0. Annexure

Annexure 1

| Form 1: Long Term Business | | | |
|-----------------------------------|----------------------------|-----------------------|--|
| <i>Name of Insurer:</i> | | | |
| | | Year ending... | |
| <i>Product name:</i> | | | |
| <i>Generic name:</i> | | | |
| Items | | | |
| Premium | Gross | 1 | |
| | Net | 2 | |
| Claims | By death | 3 | |
| | By maturity | 4 | |
| | By expiry | 5 | |
| | By surrender of policy | 6 | |
| | By forfeiture of lapse | 7 | |
| | Annuity payments | 8 | |
| Expenses | Commissions | 9 | |
| | Management | 10 | |
| | Other | 11 | |
| Number of new business | Policies | 12 | |
| | Lives | 13 | |
| | Lapses | 14 | |
| | Sums Insured | 15 | |
| Total | number of Policies | 16 | |
| | number of Lives | 17 | |
| | number of Lapses | 18 | |
| | Amount of the Sums Insured | 19 | |
| Liability | Gross | 20 | |
| | Net | 21 | |

Annexure 2

| Form 2: General Business - Summary of new business | | | |
|---|---------------------------------|-----------------------|--|
| <i>Name of Insurer:</i> | | | |
| | | Year ending... | |
| <i>Product name:</i> | | | |
| Items | | | |
| Premium | Gross | 1 | |
| | Net | 2 | |
| Claims | Incurred | 3 | |
| | Paid | 4 | |
| | Outstanding | 5 | |
| Expenses | Commissions | 6 | |
| | Management | 7 | |
| | Other | 8 | |
| Number of | Contracts | 9 | |
| | lives (where applicable) | 10 | |