BANKASURANCE IN KENYA

A CASE FOR A LEGISLATIVE FRAMEWORK

M, EDWIN

G34 - 2378 - 03

2007

"To stay ahead of the pack, Kenyan banks need to constantly re-invent themselves and develop new products"

Author's Quote.

UNIVERSITY OF NAIROBI LIBRARY
P. O. Box 30197
NAIROBI

Declaration

I, Edwin Madoya declare that this dissertation is my original work and has not been presented to any other institution for the purpose of obtaining a degree.

Signed .... Date.....10/09/2007..................

Edwin Madoya J.

This dissertation has been submitted with my approval as a University of Nairobi supervisor.

Signed .... Date.....10/09/07.....................

Mr. Oketch Owiti

Dean, Faculty of Law

Acknowledgement

First, I wish to express my gratitude to Mr. Oketch Owiti for his guidance, support and patience while I wrote this dissertation. He allowed me to research on an area hitherto uncharted in the Kenyan Academic Field and that is yet to gain strong footing in the Kenyan business field. Without his suggestions and pointers, I would not have managed what I have.

I also wish to thank Aron Ambia, classmate and friend, for his encouraging words and support.

I wish to thank my other classmates, friends and family for their encouragement.

Last but not least, I wish to thank the Almighty for bringing me this far.

Dedication

This dissertation is dedicated to my mother, Grace, for being there whenever I needed her. Her love has taught me wonderful things.

Table of Contents

Declaration....................ii
Acknowledgement....................iii
Dedication....................iv
Table of Contents....................v
List of Abbreviations....................viii
List of Statutes....................ix

Chapter 1:
1.0 Status of Bankassurance in Kenya
1.1 Introduction....................1
1.2 Statement of the Problem....................3
1.3 Research Question....................4
1.4 Hypotheses....................4
1.5 Study Justification....................5
1.6 Research Objective....................6
1.7 Theoretical Framework....................6
1.8 Literature Review....................6
1.9 Method of Study....................8
1.10 Limitations....................10
1.11 Chapter Breakdown....................10

Chapter 2:
2.0 Strategies for Bankassurance and Challenges Arising From Integration
2.1 Venturing Into Bankassurance....................11
2.2 Collaboration....................11
2.3 Distribution Channels in Bankassurance....................12
2.4 Forms of Bankassurance Strategy....................12
2.4.1 Total Integration....................12
2.4.2 Subsidiary: Bank or Insurance Subsidiary....................13
2.4.3 Joint Venture....................14
2.4.4 Setting up a Conglomerate via a Holding Not Subject to Supervision....................14
2.4.5 Co-Operation with Participation....................14
2.4.6 Loose Co-Operations....................14
2.5 Distribution Channels....................14
2.5.1 Career Agents....................15
2.5.2 Special Advisers....................15
2.5.3 Salaried Agents....................16
2.5.4 Platform Bankers....................16
2.5.5 Set-Up/Acquisition of Brokerage Firms....................17
2.5.6 Direct Response....................17
2.5.7 Internet....................17
2.5.8 E-Brokerage....................17
2.5.9 Outside Lead Generating Techniques....................18

2.6 Integration of Various Distribution Channels....18
2.7 Distribution Models....20
2.7.1 Integrative/Generalist Model....20
2.7.2 Specialist Model....21
2.7.3 Financial Planning Model....21
2.8 Key Value Drivers....22
2.8.1 Brand Equity....22
2.8.2 Distribution....23
2.8.3 Technology....23
2.8.4 Culture....24
2.9 Bankassurance Trends in Various Markets....24
2.9.1 Mature Markets....24
2.9.2 Emerging Markets....25
2.10 Challenges for Bankassurers....26
2.10.1 Regulatory Arbitrage....27
2.10.2 Contagion....28
2.10.3 Conflicts Of Interest....28
2.10.4 Differing Risk Structures....28
2.10.5 Internal Transactions....29
2.10.6 Problems in Supervision....29
2.10.7 Regulatory Obstacles....30
2.10.8 Cultural Obstacles....33
2.10.9 Economic Obstacles....34
2.11 Examining Obstacles....35

Chapter 3:
3.0 A Regulatory Framework for Bankassurance in Kenya
3.1 Regulation of Bankassurance Entities....37
3.2 Why A Supervisory Structure For Bankassurance?....37
3.3 Importance of a Bankassurance Legal Framework....38
3.4 Nature of Supervision....41
3.4.1 Unified Supervision....42
3.4.2 Structure of a Unified Financial Services Regulatory Agency....44
3.5 Specific Regulatory and Supervisory Issues....47
3.5.1 Capital Adequacy....47
3.5.2 Market/Product....48
3.5.3 Marketing and Consultation....50
3.5.4 Bank or Insurance Company as the Parent Company....51
3.5.5 Intra-Group Transactions and Large Exposures....52
3.5.6 Organisational Requirements....53
3.5.7 Approval Requirements....54
3.5.8 Risk Monitoring....55
3.5.9 Information Exchange between Authorities....56
3.5.10 Scope of the Regulations....57
3.5.11 Transparency....57
3.6 The Regulatory Authority....58

3.6.1 Functions of the Supervisor....58
3.7 Conclusion....61

Chapter 4:
4.0 Bankassurance Advantages and Recommendations for Its Successful Adoption in Kenya
4.1 Bankassurance Advantages and Recommendations for Its Successful Adoption in Kenya....62
4.2 Why Encourage Bankassurance....63
4.2.1 Advantages for the Insurance Company....63
4.2.1.1 Improved Customer Base....63
4.2.1.2 Variation of Distribution Channels....64
4.2.1.3 Reliance on the Bank's Image....64
4.2.1.4 Reduced Distribution Costs....64
4.2.1.5 Easier Establishment in New Markets....64
4.2.2 Advantages for the Bank....64
4.2.2.1 Bankassurance as A Revenue Source....65
4.2.2.2 Variety of Products....65
4.2.2.3 Increasing Staff Profitability....65
4.2.2.4 Enforcing Customer Loyalty....65
4.2.3 Advantages for the Customer....66
4.2.3.1 Access to More Financial Services....66
4.2.3.2 Lower Costs....66
4.2.3.3 Suitable Products....66
4.2.4 Advantages for the Authorities....66
4.3 Recommendations for Development of Bankassurance in Kenya....67
4.3.1 A Favourable Environment....67
4.3.2 The Distribution Network....68
4.3.3 Market Image....68
4.3.4 An Integrated Management Model.... 69
4.3.5 Management and Remuneration....70
4.3.6 Training....72
4.3.7 Quality Customer Service....73
4.3.8 The Insurer's Products' Features....74
4.3.9 The Model Chosen To Create the Bankassurance Operator....75
4.3.10 Insurance Penetration Rate....76
4.4 The Way Forward....76

Bibliography and Suggested Readings....77

List of Abbreviations and Acronyms

AIG	American International Group
ART	Alternative Risk Transfer
ING	International Nederlanden Groep
IRDA	Insurance Regulatory Development Authority
GLB	Gram-Leach Bliley
USA	United States of America
U.K	United Kingdom
CBK	Central Bank of Kenya
IRA	Insurance Regulatory Authority
IAIS	International Association of Insurance Supervisors
IOSCO	International Organization of Security Commissions
FRB	Federal Reserve Board

List of statutes

i) Kenyan statutes
Banking Act
Insurance Act
Finance Act, 2006

ii) Foreign Statutes
Gram-Leach Bliley Act, 1999 (U.S.A)
Insurance Regulatory Development Authority Act, 2000 (India)
German Date Protection Act (Germany)
Act on Banking Activity (Poland)
Act on Insurance Activities` (Poland)
Finance Laws, 1998 & 1999 (France)
Amato Law, 1990 (Italy)
Bank Holding Company Act, 1956 (USA)
Glass-Steagal Act, 1933 (USA)
Financial Services Development Act, 2001 (Mauritius)

1.0 Status of Bankassurance in Kenya

1.1. Introduction

Bankassurance is the integration of insurance and banking services. It involves the provision of insurance services in banking halls. The word Bankassurance is a French compound word of 'Banque (Bank)' and 'Assurance (Insurance)'[1]. In broader terms, it indicates financial convergence, which incorporates banking, securities and insurance services through a holding company or other means. It may also refer to bankinsurance in the narrow sense. Bankassurance is therefore part of the wider notion of universal banking whereby a variety of financial services are on offer at the same institution. These services mainly include commercial and investment banking as well as insurance

Various factors may drive banks to venture into bankassurance but the underlying reason is so that they may maximize profits through increased revenue. In Kenya banks may consider venturing into bankassurance because of shrinking margins from their core business, namely lending to their customers. Additionally most banks have many branches some of whose operations are unprofitable owing to low business. Banks are losing customers as people try out other modes of savings and investment such as mutual funds. Investors are also seeking cheaper funding from the capital markets and are, therefore, borrowing less from banks. Banks, therefore, need to adopt new business structures and bankassurance is a viable field that banks can venture into. By adopting bankassurance banks will be able to increase their revenue through fees and commissions charged for the service. This, in turn, would help in solving the problem of effectivity within its primary distribution network.

Additionally, insurance firms continue to grapple with the problem of low levels of penetration particularly in personal insurance. Premiums collected by insurance firms in the year 2005 were a paltry 40 billion shillings whilst the market has a potential to generate 100 billion in premium. Indeed the number of Kenyans covered under life insurance stands at 300,000[2]. This is very low representing only 1% of the population. In order to raise these figures and generally develop

[1] www.torpedo.co.kr. <13/12/2006>
[2] Financial Standard, January 9, 2007 at page 3.

insurance in the country, insurance firms need to adopt various measures including improving the existing products, using modern information and telecommunication technology and, most importantly, implementing new distribution channels. Bankassurance, therefore, represents a great avenue for insurance firms to increase their client base and thereby increase their profits.

Bankassurance is highly developed in other jurisdictions. In Western Europe majority of banks are engaged in bankassurance through various models including; undertaking distribution of insurance products as agents of insurance companies for a fee under a distribution agreement or strategic alliance. Examples of this model of bankassurance include agreements between La Posta with CNP in France and that between Duestche Bank and Zurich FC in Germany[3]; by entering into a joint venture with an insurance company such as Postbank and HDI Versicherung in Germany and Delta Lloyd and ABN Amro in the Netherlands or through an acquisition such as Credit Sussie acquired Winterthur in Switzerland.

In North America, the *Glass Stegall Act of 1933* prevented banks and insurance companies in the United States of America from practicing bankassurance until 1999 when the *Financial Services Modernization Act* came into force. Further restrictions were removed in 2000 with the passing of the *Gramm-Leach Bliley Act*[4]. Subsequent to this enactment Citibank merged with Travellers Group to form Citigroup. India and East Asian countries such as Japan, Thailand and South Korea have also made much progress in bankassurance by allowing mergers and cross-shareholding to take place between banks and insurance companies.

In Kenya, bankassurance is not a developed field. However, the recent acquisition of a 33.3 percent stake in AIG Kenya by Commercial Bank of Africa[5] and plans by Family Finance Bank to revive its insurance subsidiary, Kenya Orient Insurance Company, as well as the conglomerate CFC Financial Group which offers universal banking is an indication that banks are slowly venturing into bankassurance. Other banks are likely to venture into the same once they realize the profit potential in bankassurance.

---

[3] Bankassurance- International Experience And Perspectives In Russia. Report by the AIG Group.
[4] Marriages Made in Bankers Heaven: Bankers Digest, January- March 2004 issue.
[5] www.bankelele.co.ke < March 22, 2006 >.

In the *Finance Bill, 2006*, the Minister for Finance in an attempt to broaden the financial sector to allow for more differentiated banking products proposed to amend section 53 of the Banking Act to allow for the introduction of new banking products. Section 53 allows the Minister for Finance to exempt an institution from provisions of section 13, which imposes restrictions on ownership of financial institutions. This restriction limits cross-shareholding in the finance industry and this severely hampers banks from making forays into insurance business or vice versa. As a result of this amendment banks will be in a position to introduce bankassurance as part of their service delivery. Further, he allowed the sale of insurance policies by free agents thereby opening up the insurance market to other players other than the traditional insurance agents.

1.2 Statement of the Problem

This paper has looked into various issues arising out of the bankassurance concept with regard to the situation in Kenya. Firstly, Kenyan banks have various avenues that they can adopt in venturing into bankassurance. However, as of present only three banks are engaged in bankassurance namely, Commercial Bank of Africa, Family Finance Bank and the CFC Group[6]. This means that Kenyan banks are missing out on the additional profits that bankassurance has the capacity to generate and should therefore be encouraged to adopt any of the bankassurance avenues that I will propose in this study.

The second issue that arose is the fact that, presently, we only have sector specific regulations dealing with banking and insurance individually. We do not have a multi-sectored regulatory framework, such as would cater for bankassurance. For example the proposed amendment to section 53 of the Banking Act[7] simply seeks to allow cross-shareholding among financial institutions but it does not propose how the sector should be ran. To ensure that bankassurance grows and stakeholders realise its full benefits it is imperative that stakeholders implement a regulatory framework to facilitate its development.

---

[6] Supra.
[7] Supra.

Arising from the above issue was the fact that for any sector to run smoothly, a form of regulatory framework together with an overseeing body has to be in place to guide its running. The banking sector has the Central Bank of Kenya and the Minister for Finance to regulate it. The insurance industry on the other hand has the Commissioner of Insurance and there is a proposal to establish an Insurance Authority. The two sectors also have professional associations that ensure that stakeholders maintain professionalism in service delivery. This has ensured that there is some form of stability in these two sectors.

There is need to come up with a form of supervisory regulation complete with an authority to cater for bankassurance. Indeed bankassurance would offer greater challenges in its regulation because of its diverse portfolio, which raises the possibility of systematic risks arising from the operations of one entity. A regulatory framework will ensure that the sector develops within a guided system to realize its full benefits and to minimize risks or the effects of such risks such as collapse of the financial sector of the economy, which may arise because of complications arising from diversification of an entity's business.

1.3 Research Questions

This paper has answered the following questions,

- In view of the fact that ventures by banks into bankassurance are a great source of profits what avenues can banks adopt to venture into the same?
- On the assumption that a regulatory framework for bankassurance is necessary, what should be the nature and content of such regulation?

1.4 Hypotheses

Banks are venturing into bankassurance either by undertaking distribution of insurance products as agents of insurance companies for a fee under a distribution agreement or strategic alliance, by entering into a joint venture with an insurance company, or through acquisition of an insurance company.

1.5 Study Justification

Bankassurance is a service that will develop because of banks' need to maintain their present rate of profit growth rather than because it is driven by customer demand. Various factors will cause banks to consider venturing into bankassurance among them being: Extreme competition in the banking sector; the offering of financial services by, Savings And Credit Co-Operative Societies, Building Societies and other non banking institutions[8]; shrinking margins due to increasing customer price sensitivity and decreasing customer loyalty as more and more Kenyans opt for other savings and investment vehicles; increasing expenses on administration and distribution channels, among other factors.

Interest rates have fallen with little possibility of rising in the short term, former bank customers are now venturing into mutual funds and other investment and saving vehicles with higher returns. At the present rates, bank profits will peak soon and sustaining the present growth is not possible unless there is a change in strategy[9]. Further, life insurance products are somewhat complementary to deposit products as both involve long-term funds management.

The above factors coupled with a huge untapped insurance market shows that banks should consider suitable strategies to embark upon bankassurance and earn fee-based income. Further, regulation of this sector will ensure that the players reap full benefits of bankassurance.

This study therefore seeks to provide means by which banks may venture into bankassurance. It will elaborate the various modes by which bankassurance business can be undertaken. It will also outline the importance of regulation to guide the sector and outline the various forms that this regulation can take. This is so that stakeholders may reap the full benefits of the synergy between insurance and banking.

---

[8] Johnson S., Tackling The Frontiers Of Micro Finance In Kenya; The Role For Decentralized Service;, Center For Development Studies, University Of Bath, U.K, at Pg 4.
[9] Mwangi M., African Review of Business and Technology.

1.6 Research Objective

This study has provided an enlightened perspective into methods that banks may adopt in venturing into bankassurance in order to reap the full benefits that this synergy has the potential to create.

It has also outlined a regulatory structure that may be put in place to ensure the smooth operation of bankassurance in the country

1.7 Theoretical Framework

The basis of this study was the concept of capitalism. Banks and insurance firms as capitalist entities need not only to continuously make profits but also to ensure that the profits keep growing. This is the only justification for their owners, whether private individuals or the public, to keep them running.

This, however, bears a lot of pressure on the management of these entities to perform as per expectation or even exceed expectation.

Bankassurance is, therefore, a solution to both the owners and their employees as it offers a new profit source for banks while aiding insurance firms to increase their client base. Indeed, there are around 50 insurance firms in Kenya offering the same products. Therefore, further development of insurance will not depend on the variety of the products but rather on improving the existing products, implementing new distribution channels and using modern information and telecommunication technology.

1.8 Literature Review

Bankassurance is a novel concept in Kenya and there is virtually no literature undertaken on the subject locally. Internationally, some writers have attempted to expound on the subject. Books on banking and insurance are not of much help as they basically deal with principles involved in banking and insurance practices respectively. They do not capture the concept of bankassurance.

Some writers have attempted to make an insightful study on bankassurance especially in view of their countries' attempted forays into the practice. *Anton Koraus* in an article titled; *Bankassurance-The New Financial Trend*[10] undertakes an analysis of the bankassurance concept generally asserting that it is a globalization residue. He further identifies the advantages that may accrue to both insurance companies and banks that engage in bankassurance namely that banks provide their wide distribution network as a place where insurance products can be sold while solving the problem of effectivity within their primary distribution network.

He notes that there has been a decline in the life insurance sector and that more and more insurance customers purchase their insurance policies from banks rather than the traditional insurance agents. He, however, states that insurance companies can counter this by venturing into traditional banking territories (assurfinance) as they have the necessary experience in finance management. He notes that banks are venturing into bankassurance without appreciating the demand that this product places on their retailing capabilities. He proposes a form of partnership between banks and insurance companies in order to realize the full benefits of bankassurance.

His analysis is however limited to an overview of the bankassurance concept, advantages that may accrue to institutions that venture into the sector and the best approaches to be adopted when venturing into bankassurance; namely, a form of partnership between banks and insurance companies. He does not advocate for any form of regulation, whether state generated or developed by stakeholders, which forms a major part of my study.

C.R.L. Narasimhan in *Bankassurance: Marriage Between Banking and Insurance*[11] writes about the channels that can be adopted to venture into insurance. With regard to bankassurance regulation he provides as an example, regulation under Indian law, which is undertaken by the Reserve Bank of India (RBI), which has also offered guidelines on how the sector should be run.

For instance, the RBI regulations provide that banks can neither take up insurance departmentally nor set up a separate subsidiary; that there has to be an arms length relationship between insurance firms and banks so that risks inherent in the insurance business do not enter

[10] Ekonomicky Casopis, Volume 47/ no. 6 of 1999.
[11] www.thehindu.com < November 25, 2006>.

the banks balance sheet. This is because insurance companies are more risk averse than banks and so this distancing is important to ensure that banks do not use their capital to offset insurance losses.

The guidelines also make a distinction between banks that set up joint ventures and hence share in the risk and those that merely undertake to distribute insurance products. He envisages that the agency function will be a key source in augmenting banks' income and only a few banks will do fully-fledged insurance business. Perhaps this is because insurance agency is less risky as compared to underwriting and yet it is almost as profitable.

On the possibility of an overlap between the functions of RBI and the Indian Insurance Regulatory Development Authority (IRDA), he notes that the RBI has said that the holding of equity by a promoter bank in an insurance company is subject to compliance with the IRDA regulations. This in essence means that the IRDA comes into the picture only before a bank ventures into bankassurance. Once it has done so, it is then under the regulation of RBI. This is a most effective way of dealing with the problem of overlap in regulatory functions of the two regulators.

Although his study bears some resemblance to my own in so far as he proposes means of venturing into bankassurance and a form of regulation of the sector, his study does not delve into forms of regulations that may be adopted nor does it look at what the regulations cover other than that there has to be an arms length relationship between insurance firms and banks so that risks inherent in the insurance business do not enter the banks balance sheet. I on the other hand propose to look at what the regulation should cover such as capital adequacy, institutional infrastructure, and staff competence among other factors. I will also look at the degree of regulation, the structures used in regulation and the regulatory agencies.

1.9 Method of Study

I relied on various sources of information as outlined below;

1.9.1 Primary Sources

The main primary source of information was by means of interviews with stakeholders in insurance and banking industries particularly those that have ventured into one form of bankassurance or another. This is because such people have had hands-on experience in the field and will, therefore, be an important source of information especially on bankassurance trend adopted by them and the reason underlying choice of that trend. They also informed me on the challenges that they face especially considering the absence of any form of regulation to guide bankassurance practice.

I also used various statutes including; the Insurance Act[12], the Banking Act[13], Regulations of the Association of Kenya Insurers and those of the Kenya Bankers Association. This is because these statutes and regulations provide the types of business activities that can be undertaken by insurance companies and banks and also how such businesses are to be carried on.

I also looked at insurance records that were available in the public domain such as those collected by the Association of Kenya Insurers to establish the number of insurance firms in the country and the amount of insurance sold by them especially as a proportion of the country's population.

1.9.2 Secondary Sources

This was a major source of information and included sources obtained from the public media mainly newspaper reports on firms engaged in bankassurance and when they started venturing into the same. I also looked at the financial records of various financial institutions especially those with a leaning towards universal banking such as the CFC Financial Group, Family finance and Commercial Bank of Africa.

Internet sources also formed a major resource base for this study. This is because certain institutions that engage in bankassurance post their approaches on their websites.

[12] Cap 487 Laws of Kenya.
[13] Cap 488 Laws of Kenya.

1.10 Limitations

The most challenging limitation that I encountered was the lack of material on the subject. As stated previously, bankassurance is a relatively new concept in the financial world and little has been written on the subject. I had to make do with whatever scant literature that was available and supplemented it with other sources outlined in my method of study section.

Another hurdle was with regard to interviews with industry stakeholders as most had busy schedules and therefore was hard to obtain an interview session with them.

Another setback that I encountered in the process of the research was with regard to funding, as the funds that are available are not adequate to carrying out an extensive research. To overcome this I utilized resources at my disposal that helped in cutting costs of research.[14]

1.11 Chapter Breakdown

The result of this research is discussed in four chapters. Chapter1 discusses the manner in which the research was carried out and summarizes the contents of the research report.

Chapter 2 involves an in-depth analysis of bankassurance. It includes ways by which banks can enter into bankassurance as well as challenges that they are likely to encounter while undertaking such ventures.

Chapter 3 presents a case for a bankassurance regulatory framework. It looks at the nature of the regulations that may be applied to the sector including what it should cover and the benefits of adopting such regulation.

Chapter 4 is a conclusion of the study. It includes general and specific observations made in the course of the study. It will also include recommendations made from the observations. These recommendations will mainly aim at developing the bankassurance sector in Kenya and how to overcome challenges that the sector faces.

---

[14] Such as the Internet.

2. Strategies for Bankassurance and Challenges Arising from Integration

2.1. Venturing into Bankassurance

This chapter looks into models and channels that banks can adopt in venturing into bankassurance. It also looks at impediments to effective bankassurance ventures especially in countries that have much developed bankassurance structures.

2.2. Collaboration

The best strategy to adopt in venturing into bankassurance is a collaborative one because in their traditional roles and with their individual skills, neither banks nor insurance companies can effectively mount a bankassurance start-up alone.

Banks bring a variety of capabilities to the table[15]. Most importantly, they own proprietary databases that can be tapped for middle-market leads. In addition, they can leverage their name recognition and reputation. Strong players also excel at managing multiple distribution channels, cross selling banking products, and using direct mail. However, most banks lack experience in several areas critical to successful bankassurance strategies: in particular, developing insurance products, selling through face-to-face push channels underwriting, and managing long-tail insurance products[16].

Where banks usually fall short, a strong insurer will excel[17]. Most have substantial product and underwriting experience, strong push channel capabilities, and investment management expertise. On the other hand, they tend to lack experience or ability in the areas where banks prevail. They have little or no background in managing low-cost distribution channels; they often lack local and regional name recognition and reputation; and they seldom possess access to or experience with the middle market.

---

[15] Bankassurance –International Experience and Perspectives On Russia: Report by the AIG Group
[16] Kumar M., *Bankassurance: A SWOT Analysis*, The Insurance Professional, May 3, 2007, p.3.
[17] Ibid.

2.3. Distribution Channels in Bankassurance[18]

Distribution is the key issue in bankassurance and is closely linked to the regulatory climate of the country. Over the years in various jurisdictions, regulatory barriers between banking and insurance have diminished thereby enabling bankassurance ventures. The passage of the *Gramm-Leach Bliley Act of 1999* in the USA and the *Insurance Regulatory Development Authority Act* in India in 2000 have stimulated the growth of bankassurance by allowing use of multiple distribution channels by banks and insurance companies.

Bankassurance experience in Europe as well as in other select countries such as Japan and South Korea offers valuable guidance for developing markets such as Kenya that are interested in insurance distribution through the bank channel.

Since the mid 1980s, numerous banks have set up their own insurance companies in Europe.[19] Life insurance companies in particular have been set up on account of the similarities of their products with bank investment products and due to the long-term nature of the life insurance investments managed. An essential driving force was the outflow of borrowings at the banks as a result of increased competition from investment-like life insurance products due to increasing equity saving. By integrating an insurance company, banks were trying to counteract this trend and to bind long-term capital.

2.4. Forms of Bankassurance Strategy

Banks can engage in bankassurance via any of the avenues discussed hereunder; the order corresponding to the different degrees of integration to be expected between banks and insurance companies, beginning with total integration and ending with loose co-operation.

2.4.1. Total integration

In theory, total integration would mean that a legal and economic merger of a bank and insurance institution is possible, which is, however, not the case in most countries. It would mean that all

---

[18] This represents an overview of bankassurance in countries with a developed bankassurance structure.

[19] *Report of the Swiss Institute of Banking and Finance*. The University of St. Gallen-Institute of Law Economics and Social Sciences. Report No S/bs/BB/sa/02. Chaired By Prof Dr. B. Bernet

of a bankassurance company's activities could take place within one economic unit. This has the advantage that resources find use in different parts of the company. Thus economies of scale and scope can be realized. Moreover, a common economic unit enables the production of the insurance company to be tailored to the company's requirements and this at a theoretical low price because of transaction cost considerations.

2.4.2. Subsidiary: bank or insurance subsidiary

a) Insurance subsidiary of a bank

This form is common in Europe, particularly in England, France and Italy. It involves the setting up of an insurance subsidiary by a bank. The companies set up generally concentrate on the creation of a limited product portfolio, and the sales representatives work in close co-operation with those of the bank, or the insurance company's marketing channels are identical to those of the bank depending on the nature of regulation.

b) Bank subsidiary of an insurance company

Different insurance companies have set up their own banks particularly in Europe or have taken over smaller banks. Own start-ups as a whole are, however, more rarely the case than take-over of banks by insurance companies. This is due to additional distribution possibilities and the size of the investment scope, which is greater in the case of established banks with existing regular clients than in the case of a bank that has yet to be established. In both cases, the insurance company secures access to the capital market and financial-specific expertise, as above all happens in the case of alternative-risk-transfer (ART) products or finite risk solutions.

ARTs are a range of solutions that can assist companies in the financial management of their business by drawing upon methodologies from the insurance and banking sectors. They are used to manage complex risk exposures, which are often uninsurable in the mainstream insurance market. This is done through the offer of multi-year and multi-line cover, thereby spreading risk over a period of time and within the policyholder's portfolio. Finite risk solutions on the other hand are financing concepts with well-defined risk transfer where the insured funds the major part of the risk. The premiums and investments are invested in a favourable economic environment. It may be geared to one single risk or a well-defined basket of risks.

2.4.3. Joint Venture

In the case of a joint venture, both the bank and the insurance company participate in a joint company. A joint venture may be a classical distribution company, but can also carry out other functions such as asset management or the production and management of insurance products. Joint venture establishment is a widespread phenomenon in Europe.

2.4.4. Setting up a Conglomerate via a Holding not Subject to Supervision

Setting up a conglomerate via a holding controlling company not subject to supervision is frequently described as indirect participation as the bank or insurance company participates in the co-operation partner via a holding company. If necessary, this co-operation strategy can be used for avoiding regulatory obstacles, if direct participation is prohibited or restricted in another business sector, as has been the case in Kenya[20].

2.4.5. Co-operation with Participation

Co-operation agreements are often backed by participation, predominantly in the form of cross participation.

2.4.6. Loose Co-operations

In the loose form, which is done without confirming the co-operation with participation, mainly pure marketing, and cross selling contracts are concluded.

2.5. Distribution channels

Depending on the adopted model, bankassurers can use various distribution channels that include[21]:

1) -Career Agents
2) -Special Advisers
3) -Salaried Agents
4) -Bank Employees / Platform Banking

[20] See section 13 of the Banking Act.

[21] Kumar M., *Marketing and Distribution Channels in Bankassurance*. www.einsuranceproffessional.com <5.5.2007>.

5) -Corporate Agencies and Brokerage Firms
6) -Direct Response
7) -Internet
8) -E-Brokerage
9) -Outside Lead Generating Techniques

The main characteristics of each of these channels are explained hereinbelow,

2.5.1. Career Agents

Career Agents are full-time commissioned sales personnel holding an agency contract. They are generally independent contractors. Consequently an insurance company can exercise control only over the activities of the agent that are specified in his contract. Despite this limitation on control, career agents with suitable training, supervision and motivation can be highly productive and cost effective. Moreover, their level of customer service is usually very high due to the renewal commissions, policy persistency bonuses, or other customer service-related awards paid to them.

Many bankassurers, however, avoid this channel, believing that agents might oversell out of their interest in quantity and not quality. Such problems with career agents usually arise, not due to the nature of this channel, but rather due to the use of improperly designed remuneration and/or incentive packages.

2.5.2. Special Advisers

Special Advisers are highly trained employees usually belonging to the insurance partner, who distribute insurance products to the bank's corporate clients. Banks refer complex insurance requirements to these advisors. The clients mostly include affluent population who require personalised and high quality service. Usually special advisors are paid on a salary basis and they receive incentive compensation based on their sales. The special advisers either sell in the branch or the bank may also establish a mobile sales forces.

2.5.3. Salaried Agents

The advantage of having salaried agents is that they are fully under the control and supervision of the bankassurer. They share the mission and objectives of the bankassurer. Salaried agents in bankassurance are similar to their counterparts in traditional insurance companies and have the same characteristics as career agents. The only difference in terms of their remuneration is that they are paid on a salary basis and career agents receive incentive compensation based on their sales.

2.5.4. Platform Bankers

Platform Bankers are bank employees who spot the leads[22] in the banks and gently suggest the customer to walk over and speak with an appropriate representative within the bank. The platform banker may be a teller or a personal loan assistant and the representative being referred to may be a trained bank employee or a representative from the partner insurance company. Platform Bankers can usually sell simple products. However, the time that they can devote to insurance sales is limited due to limited opening hours and the need to perform other banking duties. A further restriction on the effectiveness of bank employees in generating insurance business is that their target market is limited to those customers who actually visit the branch during the opening hours.

In many set-ups, the bank's special advisers assist the bank employees. In both cases, the bank employee establishes contact with the client and usually sells the simple product whilst the more affluent clients are attended by the special advisers of the bank that are in a position to sell the more complex products. A disadvantage of this channel is that if bank employees only act as "passive" insurance sales staff or do not actively generate leads, then the bankassurer's potential can be severely impeded. However, if bank employees are used as "active" centres of influence to refer warm leads to salaried agents, career agents or special advisers, production volumes can be very high and profitable to the bankassurer.

---

[22] Leads are transactions whose purpose may eventually require a form of insurance policy. For example, where a customer takes a car loan, he will need various forms of motor vehicle insurance once he purchases the car.

2.5.5. Set-up / Acquisition of Agencies or Brokerage Firms

In the USA, quite a number of banks cooperate with independent agencies or brokerage firms whilst in Japan and South Korea banks have founded corporate agencies. The advantage of such arrangements is the availability of specialists needed for complex insurance matters and in the case of brokerage firms the opportunity for the bank clients to receive offers not only from one insurance company but from a variety of companies.

2.5.6. Direct Response

In this channel, no salesperson visits the customer to induce a sale and no face-to-face contact between consumer and seller occurs. The consumer purchases products directly from the bankassurer by responding to the company's advertisement, mailing or telephone offers. This channel can be used for simple packaged products, which can be easily understood by the consumer without explanation.

2.5.7. Internet

Internet banking is an effective and profitable basis for conducting banking operations. Personal banking services are increasingly being delivered by Internet banking. Bankassurers should also take advantage of Internet banking as an efficient vehicle for cross selling of insurance savings and protection products. Banks with household name brands and proven skills in e-business are a very acceptable source of non-banking products.

With the Internet serving as an effective source of information for financial product sales, banks should make their websites as interactive as possible, providing more than mere standard bank data and current rates. Functions requiring user input (check ordering, what-if calculations, credit and account applications) should be added with links to the insurer. Such an arrangement can also provide a vehicle for insurance sales, service and leads.

2.5.8. E-Brokerage

Banks can open or acquire an e-Brokerage arm and sell insurance products from multiple insurers. The advantages of this medium are scale of operation, strong brands, easy distribution and excellent synergy with the Internet capabilities.

2.5.9. Outside Lead Generating Techniques

Outside lead generating techniques include seminars, direct mail and statement inserts. Seminars in particular can be very effective because, in a relaxed atmosphere, the insurance counsellor can make a presentation to a small group of business people, field questions on the topic, then collect business cards

Great opportunities await bankassurance partners today and, in most cases, success or failure depends on precisely how the process is developed and managed inside each financial institution. This includes the large regional bank and the small one-unit community bank.

2.6.Integration of Various Distribution Channels

As it is difficult for a single distribution channel to successfully reach the bankassurer's goals and specific target markets, bankassurers should use multiple distribution channels. This way they avoid becoming locked into one channel and they can offer services to a greater number of target markets. Multiple distribution channels provide another valuable feature. They enable the enterprise to offer customers multiple options for access. Therefore, if a customer wants to see someone about a particular service on one day but wants to transfer funds at a later date, such as on a Sunday night, the availability of both branch office and 24-hour telephone access increase the service value to that customer.

However, conflicts may arise among the various channels and also within channels under a multi-channel system. To avoid this, it is necessary to ensure the following:

- Colleagues within a channel are motivated to cooperate.
- There is communication of the importance of every link in the distribution process.
- Cultural differences are communicated and respected.
- The process can fulfil the goals of every partner in the distribution process.
- The specific role and performance expectations of each channel member are clearly stated, understood and accepted.
- Communication between channels is encouraged.
- Channel leadership is strong and committed to success.

By completely integrating their distribution channels in accordance with an established model, companies can achieve substantial cost savings, improve productivity and ensure that all stakeholders, shareholders, customers and staff are satisfied.

The future of integrated distribution calls for the customer to be placed at the heart of the distribution network. The call centre and the agency no longer operate as separate channels. Rather, a synergy is realised through realignment of roles and responsibilities and the creation of a new integrated sales process, maximising lead generation activity. Whatever the combination of distribution channels, the financial services company must seek to always improve the customer experience and deliver the service more cost effectively.

To be successful, the components of a distribution model must work together; product features and benefits, distribution costs and marketing channels should all complement each other. Bankassurers can tap all the channels identified in the model: direct mail, telemarketing, platform bankers, Internet, in-house specialists, career agents or professional financial advisors. The most effective bankassurance strategies will be driven by customers and channels, not products, and will leverage the bank's competitive strengths.

A customer and channel driven bankassurance strategy finds and engages buyers where they are found. No attempt is made to impose a preconceived product driven strategy. Traditional life insurers are often trapped: they create a product with features attractive to agents (such as high commissions), and then let the agents find appropriate target markets. This is a type of "top-down" product development approach. However, the bank channel requires an analysis of the market that starts at the bottom, with the customers, and works up.

A "bottoms-up" approach in bankassurance works differently. A customer and channel-driven strategy capitalizes on the existing relationship of trust and familiarity between the banker and branch customer and the frequency of branch visits. In emerging markets, the lower-income customers found in bank branches are usually casual labourers or small-business owners - the same type of customers ignored by most insurance agents.

Visiting local branches frequently, these customers often develop close relationships with branch managers or tellers. (Relatively few insurance agents achieve similar levels of trust with their customers.) Even in the United States, where Internet banking and automatic teller machines are omnipresent, 50 percent of bank customers have monthly contact with their local bank branch. In developing markets, these contacts are more frequent and personal and often come in the form of visits to a branch to perform simple transactions such as funds deposits or withdrawals[23].

Despite this obvious advantage that banks have, many enter bankassurance with a defensive strategy in an attempt to avoid market share erosion by insurance companies. However, they can gain market share by expanding their product range, developing a sales culture within their organizations, creating a multi-channel distribution structure and exploiting the potential of the customer information that can enable the identification of customer needs.

Some factors are critical to the success of a bankassurance strategy. These include strategies consistent with the bank's vision, knowledge of target customers' needs, defined sales process for introducing insurance services, simple yet complete product offerings, strong service delivery mechanism, quality administration, synchronized planning across all business lines and subsidiaries, complete integration of insurance with other bank products and services, extensive and high-quality training, sales management tracking system for reporting on agents' time and results of bank referrals and relevant and flexible database systems.

2.7. Distribution Models

From the above channels it can be seen that there are three basic distribution models. These are: Integrative, Specialist and Financial Planning model.[24]

2.7.1. Integrative / Generalist Model

The integrative model distributes products through existing bank channels, and in its most well known European version, branch bankers themselves sell insurance products to customers. Theoretically, this offers "One Stop Banking" and requires extensive training to branch staff.

---

[23] Supra. Note 21.
[24] Ibid.

Bank staff is supposed to know the details of all the insurance products on offer. Telemarketing and direct mail are also examples of integrative approaches.

2.7.2. Specialist Model

The specialist model distributes investment or other complex insurance products through product experts who are generally employees or representatives of the insurance company. Platform bankers help identify prospects who are then contacted by an insurance professional. This process requires less training but requires higher compensation to support the referral process. This model may not meet all of customers' needs since it lengthens the process of sale of even a simple insurance product that can otherwise be sold across the counter.

2.7.3. Financial Planning Model

The "financial planning" model is the only "team" approach. This method offers each customer and prospect a full financial planning package addressing all of the individual's financial concerns, risk tolerances and location in the cycle of life. This process is beneficial for the customer, the bank and the insurer, as the customer is viewed "outside the numbers". Bankassurers convey the message that they want to know all about the customer in relation to their current and future financial needs and want to assist them on all those aspects of their life.

To move a bank in the direction of becoming an effective user of the financial planning model, the bank's sales force first has to be taught how to qualify prospects and make referrals and properly approach the customer/prospect. This process will include and actively involve the bankassurer's project in charge who is best acquainted with pertinent state regulations.

Insurers' bank partners must then learn how to spot existing depositors/borrowers' "life triggers,"[25]. Although bank representatives have always done this in conjunction with bank products, it is new to them to apply this concept to insurance products as well. For example, a young depositor mentions he is withdrawing part of his savings or taking a loan to purchase a car. Knowledgeable bank representatives or platform bankers would immediately understand the requirement for the car insurance and maybe personal accident insurance. These bank staff

---

[25] These are milestones in a life that represent insurance opportunities

functioning now as financial services representatives can provide such sound practical advice, basically, an insurance product to fit the customer's current and future needs.

In general, a well-trained sales person can always count on certain "life triggers" -birth, death, divorce, career change or other catastrophic event- to lead his or her regular bank customers to new insurance products. If the bank's personnel are shown how to capitalize upon these triggers using insurance products, they will automatically provide referrals to the insurance group and insurance sales will follow.

Either of these distribution models works under the right circumstances. What's most important is whether the model is compatible with the bank's customer base and the insurance company's strategic objectives.[26]

2.8. Key Value Drivers

Which distribution model to use is a tactical decision secondary to more basic strategic concerns. Markets and channels should drive bankassurance strategies, encompass a broad range of tactics and practices, and leverage the competencies of the bank and the insurer. They should identify and build upon a discrete set of value drivers, those factors of such fundamental importance that to ignore any one of them could be fatal to the success of the project. There are four value drivers that should be considered in a bankassurance strategy. These are discussed below.

2.8.1. Brand Equity.

The strategy should leverage the bank's brand equity with consumers. Consumers generally rate bankers higher than insurance agents in terms of such criteria as objectivity of advice and product knowledge. A rationalized bankassurance strategy will build on the superior brand equity of banks by integrating insurance into the bank product portfolio and distribution

[26] European bankassurance experience shows that the Financial Planning Model is an extremely productive way to reach a large number of bank customers: Kumar M. *Markrting and Disttribution Channels in Bankassurance.*

infrastructure. For many customers, banks can become the primary providers of financial services by supplying personal risk management along with more traditional banking services[27].

2.8.2. Distribution.

The distribution model should accomplish the following objectives:

- It should cater for all segments of the banking population;
- It should work as a single shop for all financial requirements for the bank customer;
- It should effectively utilize the existing branch banking platform;
- It should take advantage of the multiple sales opportunities afforded by the bank's other distribution channels;
- It should strive for congruence between product characteristics and channel.

One of the key economic advantages of bankassurance is the savings achieved through efficient utilization of the bank's existing distribution channels[28]. Bankassurers can reduce significantly the costs of agent recruitment, selection and conservation. These savings can be passed on to consumers through lower premiums, or the bank can maintain the premiums at market level in order to increase profitability.

2.8.3. Technology.

Bankassurers should plan a technological infrastructure that will exploit customer information found in the bank's database to uncover sales opportunities and produce transactional simplicity for insurance customers. The information banks have about their customers' buying habits, economic status and money management practices constitute valuable assets to banks. Using technology to order information about the economic behaviour of customer segments can provide valuable insights into insurance-selling opportunities. For instance, customers buying a home through a bank mortgage can be approached for a variety of insurance products.

---

[27] In Europe, Lloyds TSB has been using its own brand name for a long time and has only recently indicated rebranding after acquiring Scottish Widow. Halifax and Abbey National continue to use their own brand names despite acquiring Clerical Medical and Scottish Mutual. Kumar M., *Marketing and Distribution Channels in Bankassurance*. At pg 13.

[28] At some point in the development of a bankassurance operation, the marginal cost of adding one more customer becomes negligible. Kumar M., at pg 13.

With a traditional insurer, behavioural information about policyholders is usually unavailable, but even when known, can only be employed by agents (who have an economic interest in thwarting a direct relationship between the company and the client).

Bankassurers can use technology to simplify the insurance purchase as much as possible, thereby making the purchase an easier, more pleasant experience and further differentiating themselves in the process. Buying insurance in the traditional way means dealing with agents and the complications of the underwriting process, which bankassurance can eliminate. Branch customers are usually in a hurry and do not want to wait, so banks will serve them best by simplification. With point-of-sale technology, customers should be able to buy policies in a short time and leave the bank with coverage in hand. With an intangible such as an insurance policy, the buying experience itself is a key part of the purchase. Bankassurers should make the experience as positive as possible, and technology can contribute greatly to this effort.

2.8.4. Culture.

An effective bankassurance strategy acknowledges the fundamental cultural conflict between the bank and the insurance company by aligning the bank's interests with those of the insurance company. Without the bank's total commitment to the insurance strategy, the bankassurance program will fail. One of the more effective ways to achieve this commitment is for the bank to have an equity interest in the insurance company. With a stake in the financial results of the insurance operation, the bank has a powerful incentive to support the insurance strategy. The alternative approach, buying "shelf space" in the bank to sell insurance products, is not as effective.

In any given situation, one of the four value drivers may greatly outweigh the importance of the others. In some cases, solving the cultural problem may loom especially large, while in others building an effective technology platform may be paramount. Bankassurers will need to consider all four, however, to achieve successful balance.

2.9. Bankasurance Trends in Various Markets

2.9.1. Mature Markets

Bankassurance has blossomed across Europe with penetration rates ranging from 20 percent of pensions and life premiums in Germany to 73 percent in Spain[29]. In the UK, around 10 percent of life insurance premium income is generated regularly through bankassurance channels. European experience shows that tax-advantaged insurance products with an emphasis on savings accumulation can be successful in the banking channel under certain circumstances.

In some countries, such as France and Spain, favourable tax treatment affords bankassurance products competitive advantages. On certain pension products sold in Europe through banks, the tax advantages are substantial, sometimes even including deductible premiums. In the United States, where bankassurance has achieved more modest success, the market for annuities sold through banks and insurance agents are blossoming because the government offers favourable tax treatment on these products. Annuities also enjoy tax advantages, and the market for these products through the bank channel is booming.

2.9.2. Emerging Markets

The business model for bankassurance in developed markets does not necessarily transfer to the regulatory and economic environment of a developing market such as Kenya's. To succeed in emerging markets, bank marketers will have to develop unique strategies consistently attuned to local customer expectations and consistent with bank distribution capabilities. The biggest challenge is determining how to reach the middle economic class, which comprise the largest group of bank customers in developing countries with an ability to purchase a form of life insurance[30].

Bankers and insurers may fail to develop unique strategies specifically for bankassurance. Instead, they simply extend their traditional agency distribution approach, because they view bankassurance as just another means of reaching their existing market of affluent consumers. Agents typically target the affluent because the average revenue per customer is sufficient to support the fixed and variable costs of the distribution system. The agency channel thus perpetuates itself: Commissioned agents sell to affluent customers because they generate enough

---

[29] Supra. Note 15.

[30] Supra. Note 19.

revenue to make it profitable to sell to other affluent customers. Because agents are the insurance company's true customers, insurers provide them with products suitable for sale to the affluent.

In developing markets such as Kenya, affluent populations are much smaller than their counterparts in North America or Europe. Bankassurers who pursue this segment of the market will be forced to compete directly with traditional insurers. In a developing market, a strategy focused solely on affluent customers ignores the largest group of bank customers.

A successful bankassurance strategy focused on middle-income segments of the bank marketplace requires insurers to rethink assumptions. To fully exploit the potential of the mass-market banking channel, insurers need new types of distribution, underwriting, administration, policy issue and delivery, premium collection procedures, customer service strategies and sales approaches. In bankassurance, technology must be combined with fundamental knowledge of insurance to develop processes unique to the banking environment.

2.10. Challenges for Bankassurers

Bankassurance challenges basically arise from the differences that exist between banking and insurance activities as well as in their regulation.

The move toward integration is possible due to certain similarities between commercial banking, and insurance companies. Both industries are forms of intermediaries who work with an "invisible" product thus demanding trust from customers and creating risk for all. They transfer, invest, and re-transfer money under specific regulations set by their supervising body. Also they each involve risk management, attracting investments, and performing intermediary activities.

However, looking at the daily behavior of each industry reveals a lot of differences between the two sectors. The way each industry handles these common activities varies greatly because of corporate culture, industry norms, and industry specific regulations. The customer of a bank decides where his money should be invested and bears the risk of this investment, while a policyholder cannot choose where an insurance company invests his money in. Commercial

banks create liquidity and must deal with the risk of bank runs thus forcing them to have tighter regulations than insurers, who usually have a longer maturity for assets and liabilities.

On risks, there may appear to be many similarities between commercial banks and insurance companies because of who holds the risk, they however differ because the maturity of bank assets and liabilities is much shorter than that of insurers' assets and liabilities. Commercial banks have risks in excess of insurance companies because they are very liquid and must protect against the risk of bank runs.

The two businesses have different key risk areas and therefore methods of risk management vary. In addition, the type of risk involved and the carrier of the risk vary from industry to industry. The level of risk associated with each industry varies because of the mode of operation and the source of the risk. Each industry has to worry about risk and return on a daily basis, but each takes a different approach to risk management and offers different alternative risk transfer solutions. There is a difference in the quality of risk, the control method, and the characteristics of each industry.

Risk caused by offering credit by commercial banks is seen through interest rates to secure against non-payment of capital, while in the case of insurance companies, the cost of risk is seen through the premiums or price of insurance often known as a coverage reserve. Insurance companies will assess the insurance risk and then decide on the amount of the premium owed due to the level of risk.

2.10.1. Regulatory Arbitrage

Since conglomerates are managed on a group-wide basis, transactions may be booked in certain entities or deals may be generated to exploit regulatory differences. Intra-group transactions can be set up to formally meet regulatory requirements, but at the same time circumvent the aims of those requirements. Examples that have attracted a lot of supervisory attention include "double or multiple gearing" and "excessive leveraging". Double gearing refers to the use of the same capital by two (or more) regulated entities in the group. Excessive leveraging can occur when

debt is issued by a parent company and the proceeds are down-streamed in the form of equity to regulated entities of the group.

2.10.2. Contagion

Difficulties in one group entity may spill over to other ones. Such a situation can result directly from economic links between entities, such as capital holdings, loans, guarantees and cross-default provisions. Indirect contagion, on the other hand, results from the behavior of third parties (customers, investors) to a group entity in response to problems of an affiliated entity. It can result from mere association such as use of common branding and marketing[31]. Contagion is of particular concern when it affects regulated entities because of problems occurring in non-regulated entities. One may try to limit the contagion risk through the design of "firewalls"[32] but there is the possibility that these may become ineffective, especially in times of stress. For example, market pressure may lead a parent company to support its ailing subsidiary although it may have no legal requirement to do so.

2.10.3. Conflicts of interest

Conglomerate takes up different roles in their customer dealings, which may potentially conflict. The sharing of customer information between group entities may violate privacy laws. However, conflicts of interest also exist in the same organization so the key issue is whether there are any incentives and opportunities in the organization to exploit such conflicts of interest. Professional investors may understand such situations and take them into account in their decisions. Competition and fear of reputation loss may also act as a restraint. Other possible measures to limit the risk are disclosure, voluntary codes of conduct and internal structures/procedures designed to ensure that the different business areas are managed sufficiently independently.

2.10.4. Differing risk structures

The combination of different financial activities under the same corporate roof may allow for economies of scope in the field of risk management. While the potential gains from combining

31 Fshfields Bruckhaus Deringer (2003).

32 Firewall refers to to resretrictions placed between a bank and its affiliates to protect against liabilities/losses.

portfolios with complementary exposures to risk factors can be significant, a common problem that newly created conglomerates have to confront from the beginning is how to merge together the risk control structures of the different businesses.

Risk management structures reflect the realities of the specific environment within which they were created and tend to differ substantially both at the conceptual and technical levels across different business lines. Combining them in a meaningful and consistent way is a complex task that can easily be underestimated. In general, these activities are performed by distinct entities, which are separately capitalized and subject to regulatory requirements specific to the particular industry.

2.10.5. Internal transactions

The process of transferring assets between institutions in an integrated division in order to avoid high capital charges is popularly referred to as regulatory, or capital, arbitrage. Capital arbitrage is a risk of financial integration. This may arise due to the following; capital requirements force financial institutions to internalize costs that they would otherwise ignore. They should therefore reflect the fact that risk levels are selected endogenously.

Banks have privileged access to deposit insurance, whose risk insensitive price biases them towards socially excessive risk-taking. Since this reduces the effectiveness of market discipline for banks, the appropriate response is to raise the capital requirement to which they are subject. In contrast, institutions such as insurance companies which are financed entirely by investors who charge a fair price for the risk to which they are exposed are subject to greater market discipline, and hence can be given a lower regulatory capital charge.

2.10.6 Problems in supervision

Supervision of integrated entities must take into account market developments and the related new risks. Risks that can arise are, for instance, the risk of contagion within the group, supervision arbitrage between financial activities that are regulated differently, unrecognized risk concentrations, or "falsifications" of the picture of a single company by double use of the same funds, to name only a few.

2.10.7. Regulatory Obstacles

While synergies are a foreseeable result of integration of banking and insurance industries, oftentimes obstacles such as regulations and laws stand in the way of reaching these synergies. Oftentimes regulations require separation between insurance companies and banks either structurally or through activities. A study of the European financial market will reveal this. For example, the German Data Protection Act restricts free flow of data between different legal entities even if they belong to the same group of companies. However, financial conglomerates can exist in Germany if they are established with separate entities that specialize in different lines of business.[33] Regulations in Greece, Norway, and the Netherlands require that insurance and banking companies exist as separate corporate entities.[34] Regulations such as this one come from European Union directives.

The concept of having separate legal entities goes even further in the Netherlands because life and non-life insurance activities must also be exercised by separate legal entities. However, a financial conglomerate may consist of several legal entities each participating in various activities. These entities can cooperate on a commercial level and offer products that have banking and insurance characteristics. Greece, while forbidding a single entity, will allow banks to have insurance company subsidiaries, but cross funding is not permitted. This simply means that assets held by the bank cannot be used as part of the reserves or solvency requirements for the insurance company.[35]

In France, regulatory obstacles exist through limits on functional integration in that banks are not authorized to insure risks and insurance companies are not authorized to grant loans.[36] However, regulators in France when dealing with bankassurance do allow banks to sell insurance products insured by affiliates, and allow insurance companies to conduct banking operations via banks they own. These regulations exist to protect free competition and avoid the existence of a

---

[33] Tobias Entzian, AIDA XI World Congress Survey: Integration of Financial Services in Germany 4 (October 20-24, 2002).
[34] Virginia Murray, AIDA XI World Congress Survey: Integration of Financial Services in Greece 3 Torill Wergeland, AIDA XI World Congress Survey: Integration of Financial Services in Norway 1 AIDA XI World Congress Survey: Integration of Financial Services in the Netherlands 4.
[35] Virginia Murray, AIDA XI World Congress Survey: Integration of Financial Services in Greece 1
[36] Jean Bigot, AIDA XI World Congress Survey: Integration of Financial Services in France 3

monopoly. The Superintendency of Banks in Columbia established a right to free competition thus forcing them to supervise industries to prevent abuse of a company's position in the market. Companies in Columbia must inform the Superintendency of Banks of any proposals for mergers, consolidations or integration. Under the control of the Superintendency, institutions must revise procedures and policies that do not affect market growth and efficiency and the interests of the users.[37] Limits on functional integration also exist under Polish law. Polish law limits functional integration under the Act on Banking Activity. Under this, banks may conduct only banking activities including granting loans, guarantees, and issuing bank's securities. Insurance companies, under the Act on Insurance Activities, are limited to insurance activities and not permitted to grant any loans, credit or issue securities.[38]

In the United States, while legal barriers have been removed by GLBA, regulatory obstacles make consolidations less profitable and desirable. For example, financial holding companies are required to maintain higher overall ratings and high quality for management for each area in addition to adhering to strict capital requirements.[39]

Under Spanish law, there are limits on structural integration but it favors the functional integration of the financial intermediaries. Spanish Law does not allow the unification of one institution for commercial, investment and insuring activities. However, it allows credit institutions to perform all types of investment services in the securities market as well as act as agents of insuring institutions. [40]

Obstacles in Australia result from anti-trust legislation, financial sector acquisition legislation, and nervous regulators[41]. Anti-trust regulation in Australia states that a corporation must not directly or indirectly acquire shares in the capital of a body corporate or acquire assets of any person if it would reduce competition in the market. In addition, mergers in the financial sector

[37] AIDA XI World Congress Survey: Integration of Financial Services in Columbia 7.
[38] AIDA XI World Congress Survey: Integration of Financial Services in Poland 5.
[39] Theodore P. Augustinos and John N. Emmanuel, AIDA XI World Congress Survey: Integration of Financial Services in the United States 5.
[40] Alberto Javier Tapia Hermida, AIDA XI World Congress Survey: Integration of Financial Services in Spain 9.
[41] Integration Of Financial Services: Prepared for The AIDA XI World Congress. Jonathan R. Macey, General Reporter.

will not be approved if they adversely affect the stability of any of the industries, the interests of policyholders, Australia's foreign investment policy, or any other relevant matter.[42] Nervous regulators hold up the process of integration because oftentimes several months of negotiation will occur before approval is given. Many regulatory authorities are not comfortable with mergers and acquisitions across financial sectors thus slowing down the process of integration.

In Kenya the Banking Act at section 13 prohibits cross-shareholding amongst financial institutions.

Depending on the regulatory bodies and the laws, most countries allow integration up to a certain point and at a certain speed. Many countries require approval for investments in other industries. A main concern of these regulatory bodies seems to be the effects of integration on free competition.

Costs related to Regulations

The regulations found in each industry impose great costs on companies. For example, in Argentina, the highest costs are created by compliance with legal and regulatory requirements due to inefficiencies in the bureaucratic and judicial systems.[43] In Australia, the disclosure rules represent the highest costs resulting from the imposed regulations[44]. Tax and para-tax regulations, Labor Code regulations, and commercial network regulations impose the greatest regulatory costs in France.[45] In Italy, insurance companies are forced to pay 2% of gross income premiums to the supervision agency.[46] The majority of costs imposed due to regulations stem from safeguards for clients and policyholders. This is mainly through the requirement of sufficient notice for termination of policy, a change in the terms of the policy and documentation at the conclusion of the policy. These notifications and other disclosures significantly increase processing costs.[47]

---

[42] Mark Radford, AIDA XI World Congress Survey: Integration of Financial Services in Australia 18
[43] Mario Rossi, Jose Luis Marco, & Enrique Quintana, AIDA XI World Congress Survey: Integration of Financial Services in Argentina).
[44] Mark Radford, AIDA XI World Congress Survey: Integration of Financial Services in Australia 23.
[45] Jean Bigot, AIDA XI World Congress Survey: Integration of Financial Services in France 4.
[46] Lorenzo Capostosti, AIDA XI World Congress Survey: Integration of Financial Services in Italy 4.
[47] Virginia Murray, AIDA XI World Congress Survey: Integration of Financial Services in Greece 4.

2.10.8. Cultural Obstacles

Cultural obstacles also affect the ease with which integration will move forward. Studies have shown that these obstacles exist at the consumer and production end[48]. In Australia, it was perceived that financial service consumers wanted one-stop financial service; however, the study further showed that consumers also wanted expertise and personalized service in relation to each service. While integration may provide the convenience that consumers desire, their unwillingness to give up the personalized service that currently exists in separate, more specialized companies may stop them from making use of these convenient conglomerates. People are used to the duality of financial services and may not be willing to change.[49] It may be impossible for large conglomerates to offer the specialized attention to which people are accustomed. People need time to get used to the integration of banks and insurance companies. Banks are considered as ways to obtain money for daily support while insurance companies serve as providers of long-term safety.[50]

The managers of banks and of life insurance companies come from quite different cultures. There are differences in the way of thinking and business approaches of bankers and managers of insurance companies. These differences create a communication and implementation problem in bankassurance operations. Banks are traditionally demand-driven organizations with a reactive selling philosophy. Life insurance organizations are usually need-driven and have an aggressive selling philosophy.

Conflicting management philosophies and different corporate cultures may prevent conglomerates from offering the services that customers are looking for while at the same time capturing the synergies that are expected to result from integration. The conflicting methods may prevent new management teams from making decisions that will benefit the consumer. Different philosophies could create internal confusion that could reflect onto the consumer thus scaring them away from the use of financial conglomerates.

---

[48] Supra. Note 27.
[49] Jean Bigot, AIDA XI World Congress Survey: Integration of Financial Services in France 3.
[50] AIDA XI World Congress Survey: Integration of Financial Services in the Netherlands 5.

Not only are there differences in management techniques in the various sectors, but also in the remuneration and payment structure. Banks have always paid employees based on fixed salaries and annual bonuses. Insurance companies normally have a remuneration system that relates to transaction-based commission. Employees may not be used to a different type of payment and may not be willing to switch over to a different method.[51] Commission based remuneration may act as a motivating factor for employees and without this, employees are not forced to be as aggressive when obtaining clients and selling policies. On the other side, bank employees may not be accustomed to the pressure associated with commission-based employment and it would be difficult to implement in a banking situation.

Friction at the level of bank employees and life insurance salespeople may arise from differing philosophies towards selling, the jealousies of bank employees regarding remuneration of life sales staff and fears of "cannibalisation" of deposits, such as the bank employee fears that the salesperson encourages withdrawal of bank deposits, putting the bank employee's job in greater jeopardy. As a result the team spirit is negatively influenced and, since this is a crucial factor for the success of any operation, it has to be confronted.

Cultural differences between the banking and the insurance industries must be understood, respected and lived with in order for the bankassurance venture to succeed. The development of a single culture is another possible solution but this requires a very strong commitment from the top management. This commitment must be continuously conveyed to all bank employees and life insurance agents. One way of achieving this is to develop a "statement of mission" for the new organization and to get the staff to commit to fulfilling this statement. This can help to ensure that there is a common path for the bank and the life insurer.

This can also be done by providing new training for all employees in various aspects of every sector. People must look beyond their own discipline and have respect for each sector in order to move past conflicting philosophies.

2.10.9. Economic obstacles

[51] Anita B. Raaflaub, AIDA XI World Congress Survey: Integration of Financial Services in Switzerland.

The combination of financial sectors may be difficult because of the role that each played in the market. In France, insurance companies relate better to consumer claims than do banks taking over insurance activities. Banks often want to avoid displeasing the client by telling them that the company refuses to pay uninsured claims.[52] In addition, banking has traditionally used a pull market approach while the insurance industry has used a push market approach.[53]

In addition, different rates of return in each industry may create a significant barrier to integration. In Kenya for example, the returns for insurers have been lower than the returns for banks. Integrating insurance companies and banks could result in dilution of returns for banks.

The development of strong brand names may also prevent the success of financial conglomerates. Due to the past separation of financial sectors, strong brand names have resulted, and conglomerates may not be willing to give up these brands in order to form one uniform brand.[54] For example, the ING group in the Netherlands has its insurance brands Nationale-Nederlanden and RVS in the Netherlands and Reliastar in the US. It also has banks brands including Postbank in the Netherlands, BBL in Belgium, and Barings worldwide. Creating one global brand may confuse consumers as well as scare them away because they think they are dealing with a new company or brand. In addition, the costs associated with combining these may be great. Full integration would require a harmonization of technologies and procedures, requiring changes in internal technologies and data base protections.

2.10. Examining Obstacles

Regulations not related to anti-trust issues are the largest obstacles to integration. This deals with laws that do not permit the insurance and banking industry to co-mingle activities or exist as a single entity. Cultural obstacles and peoples' preferences can change over time, but limits placed by laws must continually be followed unless the law is changed or repealed. Cultural, management, and remuneration obstacles result because of methods to which people are accustomed. The infection of financial distress from one part of a financial conglomerate to another is also a cause for concern.

---

[52] Jean Bigot, AIDA XI World Congress Survey: Integration of Financial Services in France 2.
[53] Anita B. Raaflaub, AIDA XI World Congress Survey: Integration of Financial Services in Switzerland.
[54] AIDA XI World Congress Survey: Integration of Financial Services in the Netherlands 5.

UNIVERSITY OF NAIROBI LIBRARY
P. O Box 30197
NAIROBI

Once people get comfortable with the idea and practices of integrated financial services, these obstacles will no longer exist. However, restrictions on integration at a functional as well as at a structural level are not as easily overcome.

Risks associated with new lines of business are also one of the top obstacles to integration. Companies are unsure how consumers will react to an integrated financial services firm and may be unwilling to put forth the time, effort, and large amount of money related to the integration of the financial sectors if they are not guaranteed a positive outcome. Certain countries, such as Russia, simply find it difficult to reach full integration because of the lack of technical knowledge concerning different industries and their practices.[55] This obstacle will be overcome once a few successful financial conglomerates exist. Once companies understand successful management methods and consumer's preferences, they will be able to create a financial conglomerate without as much risk.

Companies may be unwilling to take the step toward integration if they are not guaranteed successful results and if their current, stand-alone financial institution is successful. Companies need a solid justification for moving toward integration. Many companies do not have this justification because they do not feel that all of the synergies associated with a conglomerate can be captured. This, however, may change in the future. It is in view of the above fact that regulations put in place should as much as possible be geared towards encouraging bankassurance ventures by reducing obstacles and in fact offering incentives to financial institutions to integrate their services.

---

[55] AIDA XI World Congress Survey: Integration of Financial Services in Russia 1.

3. A Regulatory Framework for Bankassurance in Kenya

3. 1 Regulation of Bankassurance Entities

Over the years financial regulation and supervision in Kenya has been organized around specialist agencies that have distinct and separate responsibilities for the banking and insurance sectors. The Central Bank of Kenya and the Minister for Finance regulate banking institutions as provided in Sections 23, 27, 28, 29, 32 and 33 of the *Banking Act*[56] which outline provisions on supervision of banking institutions and more importantly section 34 which gives powers to the Central Bank to intervene in management of a financial institution under various circumstances.

The Insurance Regulatory Authority established under section 3(1) of the *Insurance Act*[57], on the other hand, supervises insurance entities through powers conferred to it under section 3A of the Act.

However, these agencies are not best suited to regulate and supervise bankassurance entities. This is because they are specifically tailored to deal with firms offering single range products namely banking products and insurance products for banks and insurance companies respectively. We therefore need a restructuring of our financial supervisory system to cater for bankassurance.

3.2. Why a Supervisory Structure for Bankassurance?

Regulations pose a significant barrier to bankassurance ventures, whether through costs related to meeting regulatory requirements or through restrictions that are imposed by regulations. Such costs are ultimately passed on to consumers[58]. Regulation therefore needs to be justified.

Regulation can be justified by identifying a market failure, an imperfection in the operation of markets which is a potential source of risk. This is not difficult as most markets and contracts involve some degree of information asymmetry, especially against the consumer. The benefits of regulatory intervention should outweigh the costs. In other words, the regulation must pass a cost

[56] Cap 488 laws of Kenya.
[57] Cap 487 laws of Kenya.
[58] See chapter two on costs related to regulations in bankassurance.

benefit analysis test. This means that in their day to day activities, supervisors should seek to reduce the burden they impose on firms while still achieving their supervisory objectives.

There is no law in Kenya dealing with supervision of bankassurance entities. Indeed section 13 of the *Banking Act* prohibits financial institutions from, acquiring, holding directly or indirectly any part of the share capital or otherwise having any beneficial interest in a bank[59]. However, the minister for finance invoked powers conferred on him by section 53(1) of the Act and in the *Finance Bill* 2006 allowed cross-shareholding in financial institutions. This however presents a problem as the minister allowed this without putting a regulatory framework in place.

Regulation is important because of the nature of field that participants in bankassurance are engaged in. If there is no regulation in bankassurance, this may lead to the collapse of the entire financial system of the country especially in cases where banks are ill equipped to offer such services. Possibilities for negative real economic effects generally arise from disruptions to the payment system and to credit flows, and from the destruction of asset values. This will occur in cases where losses as a result of inexperience in insurance underwriting enter the banks financial records. This in turn will cause banks to use their money to offset such losses.

The complexity of bankassurance needs no emphasis considering the combined risks involved. It is therefore imperative that authorities come up with a regulatory framework to supervise bankassurance ventures.

3.3. Importance of a Bankassurance Legal Framework

The legal framework for bankassurance and the authorities' attitude to its development are essential and has a real influence on the model's conditions for success in a given country. This section looks at two features of a country's legal framework that are important in the development of bankassurance. These are the tax regime affecting bankassurance and legislation controlling bankassurance.

[59] Section 13(2) of the Banking Act.

Tax advantages can provide a strong incentive for consumers to invest in life insurance for protection or retirement planning. Changes in the law providing such incentives can have a positive, or negative, influence on the sales of a product[60].

Sales of life insurance policies by banks in France, Italy and Spain have increased significantly, largely as a result of tax breaks. In France for example *the Finance Laws* of *1998* and *1999* reformed the tax framework for life insurance, reducing tax advantages previously applicable to certain capital redemption contracts. The 1998 law restricted tax relief on capital gains to certain amounts for products with a term in excess of 8 years. The 1999 law changed the system of inheritance tax exemption applicable to certain life insurance contracts. This change in the tax regulations made these products less attractive and sales of this category of life insurance products was seen to fall by some 15% after 1998[61]. Tax policies can therefore be seen to be a real driving force in developing bankassurance.

On legislation, favorable laws, which do not restrict banks' options to acquire stakes in insurance companies or to set up their own insurance companies, and where there are no or few restrictions on the sale of insurance products by banking networks, will enable bankassurance to develop faster.

In Italy the *Amato law* of July 30, 1990 and various directives that followed its enactment, helped develop its bankassurance sector. Since then, various bankassurance forms have been adopted including, banks acquiring stakes in insurance companies or vice versa; banks and insurance companies creating joint subsidiaries or banks selling insurance policies provided by one or more partner insurance companies[62].

In South Korea the development of bankassurance was until recently completely prohibited. This is because it was illegal for banks to sell insurance products until 2003. However, deregulation in South Korea was gradual and introduced in several phases, with completion initially planned for 2007. At present, few products are on sale and certain aspects of the law continue to inhibit smooth development of bankassurance, for example, exclusive contracts between banks and

---

[60] Chevalier M., Launay C. and Mainguy B.: *Analysis of Bankassurance and its Status Around the World,* Focus, October 2005.
[61] Ibid.
[62] ibid.

insurance companies are prohibited[63]. As a result, several provisional partnerships between banks and insurance companies have been abandoned.

The United States provides an excellent example of how legislation can limit or promote the growth of bankassurance.

The United States has traditionally been characterized by a strict separation between traditional banking (commercial banking), securities activities (investment banking) and insurance. The legal basis for this separation was the *Glass-Steagall Act (1933)* and the *Bank Holding Company Act (1956)*. Under the *Glass-Steagall Act*, banks were prohibited from directly or indirectly engaging in the underwriting of or dealing in securities.

Under the *Bank Holding Company Act* banks were also prohibited from affiliating with insurance underwriters and non-financial firms. The Act was adopted in response to concerns that financial conglomerates could amass too much power and that banks could become exposed to losses from insurance underwriting.

In 1999 there was a form of deregulation with the adoption of the *Gramm-Leach-Bliley Act,* which, among other things created a new category of bank holding company[64] called a "financial holding company" which had to be registered with the Federal Reserve Board. Financial holding companies are allowed to engage in an expanded range of activities, including in particular,[65] financially related activities, which covers securities underwriting and dealing, insurance agency and underwriting activities, and merchant banking. However, merchant banking activities can only be performed through a securities or insurance affiliate.

In practice, almost all of the new activities undertaken by the financial holding companies have been in insurance sales and merchant banking. Smaller holding companies have used their new

[63] *General Insurance Association of Korea*, Industry News, 25 April, 2003.

[64] A bank holding company is a company that controls, directly or indirectly (through another bank holding company), a bank.

[65] Dierick F.: *The Supervision of Mixed Financial Services Groups in Europe*. Occasional Paper Series, no. 20/August 2004 by the European Central Bank.

powers to acquire insurance brokerage entities. They also see their status as financial holding company as a relatively low-cost option for future expansion[66].

From the above analysis, it can be seen that the form of regulation is important in the development of bankassurance in any jurisdiction. This is because regulation can either prohibit bankassurance business or can provide incentives for its development.

3.4. Nature of Supervision

The question to ask with respect to bankassurance supervision is the form of supervision to adopt and how to structure the institutional and regulatory framework for the supervisory agency. However, regulatory organization is not as important as matters relating to the implementation of financial regulation. This in particular relates to supervisory capacity and its quality and the soundness of the legal framework underlying the regulatory process.

As noted earlier, financial regulation and supervision in many countries, has been organized around specialist agencies that have distinct and separate responsibilities for the banking, securities and insurance sectors. But there has been a trend towards restructuring the financial supervisory function in many countries in recent years, and in particular unified regulatory agencies, that is, agencies that supervise two or more of these areas[67].

In countries without integrated supervision, an increasing degree of co-ordination between the individual supervisory authorities is evident. The various forms of co-ordination include occasional co-ordination; coordination on the basis of fixed agreements, and the "lead regulator concept".

Occasional coordination is the loosest form of co-operation of the individual supervisory authorities of a given country. Supervisory authorities are only coordinated if necessary.

[66] Ibid.
[67] ibid.

Holland, for example, has set up the Council of Financial Services via which the different sector supervisory bodies are co-coordinated.[68]

Coordination on the basis of fixed agreements on the other hand has a higher degree of institutionalization. Here, there are fixed agreements regarding powers and the distribution of responsibilities. Under the 'lead regulator concept', one of the sector-specific supervisory authorities is responsible for distributing tasks and responsibilities for monitoring financial service providers.[69]

Another concept is Mutual Official Assistance, which differs from co-ordination between supervisory authorities in as far as there is fixed regulations regarding mutual duties to disclose information between individual authorities.

However, these forms are not the best for regulated entities in a group. This is because such groups are exposed to certain specific risks, such as risks of contagion whereby losses incurred by one entity in the group are likely to affect other members of the group. They may also try to develop activities through group entities which they are barred from developing directly. Coordinated supervisors may not have the necessary technical capacity to deal with such challenges. Therefore unified supervision is the best form of regulation to adopt.

3.4.1. Unified Supervision

Unified supervision of financial services is a situation where groups offering integrated financial services[70] are regulated under a single regulatory structure rather than having a specific regulator for each form of service offered. Its application varies from country to country and there is no single right way of introducing or implementing it. In order to manage effectively the transition to a unified supervisory agency, one of the factors to consider is the effective and efficient co-ordination of information sharing among the major stakeholders in the unified supervisory system, namely, the Ministry of Finance, the Central Bank, and the unified supervisory agency.

---

[68] Regulatory Conditions for a Bankassurance Strategy in Europe. Report of the Swiss Institute of Banking and Finance at the University of St. Gallen-Institute of Economics, Law and Social Sciences.(HSG) Report No.:S/Bf/BB/SA/02. Chaired By Prof Dr.B. Bernet.

[69] Ibid.

[70] Main services offered include, insurance, merchant banking and investment banking.

Coordination and consultation will therefore provide an efficient means of sharing information between the various stakeholders.

Various reasons can be advanced to support the introduction of a unified regulator, including the introduction of economies of scale within the regulatory agency (most especially with respect to skill requirement); the introduction of economies of scope (or synergies) to be reaped between different functional areas of regulation[71] because a single regulator can take advantage of a single set of central support services; increased efficiency in allocation of regulatory resources across both regulated firms and types of regulated activities; efficient and effective resolution by the unified regulator of conflicts that inevitably emerge between the different objectives of regulation; the avoidance of unjustifiable differences in supervisory approaches and the competitive inequalities, inconsistencies, duplication, overlap and gaps arising through inconsistent rules which arise from multiple specialist regulators.

Additionally, if a unified regulator is given a clear set of responsibilities then it should be possible to increase supervisory transparency and accountability. Unified supervision is advantageous as it enables the introduction of a simplified single regulator whose system of operation is user-friendly to firms being regulated and to consumers as well; the introduction of a regulatory structure which mirrors the business of regulated institutions; the rational utilization of scarce human resources and expertise; more effective accountability under a single (and simplified) regulatory agency; and the reduction of costs imposed upon regulated firms to the extent that these firms would need to deal with only a single regulator.

The integration and merging of the former financial regulatory agencies into a single regulatory body enables the newly created body to use the know-how and experience of all the former agencies more efficiently, especially with regard to the trend towards product convergence and the emergence of financial conglomerates. There would therefore be no need for coordination between individual supervisory offices, which can be time consuming and cause considerable expenses

[71] Briault C., *The Rationale for a Single National Financial Services Regulator*, Occasional Paper Series No. 2, (London: Financial Services Authority, May 1999).

However, such regulation is not without shortcomings. These include, erosion of traditional functional distinctions between financial institutions namely, purely banking activities and insurance underwriting for banks and insurance companies respectively; the lack of clear focus on the objectives and rationale of regulation, that is, not making the necessary differentiations between different types of institutions and businesses, such as the distinction between wholesale and retail business; possibilities of cultural conflict in the unified agency since regulators come from different sectoral backgrounds; possibilities of creating an overly bureaucratic single regulator that has over-concentrated and excessive power; possibilities of creating a moral hazard that portrays a picture that the risk spectrum among financial institutions has disappeared or become blurred, and possibilities of actually watering down the concept of 'economies of scale' by creating an inefficient and monopolistic single regulator[72].

3.4.2. Structure of a Unified Financial Services Regulatory Agency

There is no rigidly fixed answer regarding the structure of a unified financial services regulator. Different countries have taken different routes and approaches. The reasons for these differences are varied and they include ideological, historical, economic and political factors[73].

In Africa, for example, Mauritius has, through legislation, provided for the establishment of a Unified Financial Services Regulatory Agency[74]. South Africa, too, has a model of partially unified supervision of financial services where the securities and insurance sectors have a common regulator, while banks are regulated by a specialist agency[75]. In Nigeria, the regulation of pension funds and banking business is undertaken within the same regulatory agency, while the regulation of securities and insurance business is done by separate agencies[76].

Zambia is another African country that has a partially unified supervisory system[77]. While the Central Bank of Zambia regulates financial institutions such as banks, building societies and

---

[72] Ibid.
[73]Mwendwa K.K., *Legal Aspects Of Unified Financial Supervision In Germany* ; German Law Journal No. 10 (1 October 2003).
[74] The Financial Services Development Act Of 2001.
[75] Mwenda K.K. and Fleming A., *International Developments in the Organizational Structure of Financial Services Supervision: Part I*, 16 Journal of International Banking Law No. 12 (2001).
[76] ibid.
[77] ibid.

bureau de change, the Zambia Securities and Exchange Commission is responsible for securities regulation. The recently established Pensions and Insurance Authority of Zambia regulates the business activities of pension funds and insurance companies. African countries, therefore, seem to lean towards partial unification.

Kenneth K. Mwendwa and Dr. Alex E. Fleming have examined the institutional and structural issues facing unified financial services agencies in the United Kingdom, Canada, Hungary, Iceland and Scandinavian countries[78]. They argue that, although a good case of moving towards unified supervision exists in countries where segments of the financial sector are quite inter-connected, until there is a longer track record of experience with unified agencies, it is difficult to come to firm conclusions about the restructuring process itself and the optimal internal structure of such agencies[79]. It has been observed that it is not the institutional structure of the regulator that creates effective and efficient supervision[80]. The institutional structure serves only as a prerequisite for effective and efficient financial services supervision.

A review of international experience indicates a wide variety of institutional structures for financial regulation. Some countries such as Sweden, Canada, Denmark, South Korea, and Iceland have reduced the number of regulatory agencies and some such as the UK, and Finland created a single mega agency. Other countries have opted for multiple agencies. As noted above, differences reflect a multitude of factors including, historical evolution, the structure of the financial system, political structures and traditions, and the size of the country and financial sector. With respect to the last mentioned, for instance, if there are economies of scale in regulation, a single agency might be especially appropriate for small countries[81].

---

[78]Mwenda K. K. and Fleming A., *International Developments in the Organisational Structure of Financial Services Supervision*, Conference paper presented at a conference organised by the World Bank and the Ministry of Finance of Estonia, and held in Tallinn, on Unified Supervision of Financial Services in Europe, 2001.
[79] Ibid.
[80]Trink A., *Challenges for Estonian Financial Sector Unified Supervision*, Conference paper presented at a conference organised by the World Bank and the Ministry of Finance of Estonia, and held in Tallinn, on Unified Supervision of Financial Services in Europe, 2001, at p. 3.
[81] Llewellyn, D.T., *The Creation Of A Single Financial Regulatory Agency In Estonia: The Global Context*, Conference paper presented at a conference organized by the World Bank and the Ministry of Finance of Estonia, and held in Tallinn, on Unified Supervision of Financial Services in Europe, 2001, at p. 4.

Debate on the introduction of a unified regulator in each country inevitably reflects country-specific factors and the currently prevailing institutional structure[82]. Various factors have influenced countries to set up unified regulators, and these include the emergence of financial innovation and structural change in the financial system; the emergence of financial conglomerates; the occurrence of financial failures; the complexity and extensiveness of objectives behind regulation in some countries; the emergence of new financial markets; and the increasing internationalization of financial operations.

In setting up the institutional structure of a regulatory system, a country should consider issues such as the appropriate number of regulatory agencies; the appropriate structure of regulatory agencies that is, which firms and functions are to be allocated to which agencies, and how the objectives for each agency are to be defined; the degree of co-ordination, co-operation and information sharing between different agencies; the effect of the institutional structure on the cost of regulation; the role of competition authorities in the regulatory process; the role to be given to self-regulation and mechanisms for practitioner in-put; the institutional mechanisms for facilitating efficiently the international co-ordination and co-operation of national regulatory agencies; and the independence and accountability of the regulatory agencies.

In a small economy such as Kenya's, the unified agency should first, be better able to supervise large financial groups. Second, it should be better placed to attract qualified staff and other resources to guarantee an equal level of supervision in banking, securities and insurance sectors. Third it should have more authority and independence to be more effective in carrying out supervision, and lastly, be better placed to prevent regulatory arbitrage[83].

The adoption of a single form of regulation is greatly hampered as the international body responsible for setting international standards on banking supervision differs from the international bodies responsible for setting international standards on insurance and securities regulation. While the Basle Committee for Banking Supervision is responsible for banking supervision standards, the International Association of Insurance Supervisors (IAIS) is responsible for insurance standards and the International Organization of Securities

---

[82] Ibid pp. 2

[83] Ibid pp. 4.

Commissions (IOSCO) for securities regulatory standards[84]. In order to promote economies of scope there is need to coordinate risk management by pulling together the efforts of all these three bodies.

However, even where financial services supervision is organized around a single regulatory body this does not mean that existing sectoral differences between the banking and insurance businesses should be disregarded as these differences may actually lead to the development of specific supervisory methods and rules, for both banks and insurance companies, which has in other jurisdictions proven successful[85].

3.5. Specific Regulatory and Supervisory Issues

Certain aspects of the bankassurance entity's business organization are crucial to its success and therefore regulators need to ensure that these segments of the business are strictly controlled. These include: capital adequacy; market/product; marketing and consultation; parent company control of its subsidiary; intra-group transactions and large exposures; organizational requirements; approval requirements; risk monitoring; information sharing between authorities; scope of the regulations and transparency.

3.5.1. Capital adequacy

The regulatory regime should cover capital requirements both on an individual and on a group-wide basis for the entities.

While the rules specific to each sector already cover the specific sectors, one of the questions that arise in connection with bankassurers is that of assessing the financial base, taking care to ensure that the same capital is not used several times within the group. This concern does not apply solely to financial groups. However, the difficulty compared with a homogeneous group lies in the different requirements between the two sectors, and these in turn reflect the different nature of the risks.

---

[84] Ibid.

[85] http:/www.bafin.de/index e.htm

The eligible capital elements to cover the capital requirements are generally very much the same for both sectors. Paid-up capital, reserves and subordinated debt, for example, can in all cases be taken into account. But there remain peculiarities to each sector, which are important in the context of the bankassurer's capital requirements.

The bankassurer as a whole should also be subject to solvency requirements. This will avoid cross-sectoral double (or multiple) counting of the same capital by several group entities. Such a situation, termed "double (or multiple) gearing", can occur when one group entity uses (part of its) capital to acquire capital of another group entity. In these circumstances, the capital generated outside the group (the correct measure of the group's real solvency) is less than the sum of the capital in the different group entities.

Capital requirements at the group level should only be met through "cross sector" capital, that is, own funds, which are eligible under each of the sectoral rules. The underlying idea is that one cannot cover a capital deficit in one entity with the surplus capital of another entity if this surplus capital is not recognized under the first entity's sectoral rules. Authorities should also take into account the extent to which capital is transferable and available across the different group entities. In addition to the quantitative requirements, capital adequacy policies need to be in place at the level of the entire group generally.

3.5.2. Market /Product

In view of the increasing disintegration of the value added chain, market /product supervision will be needed. The reason for this lies in the fact that "producers" will be marketing their financial products via sourcing agents, brokers and agents from another sector who are not subject to branch-specific supervision (for example: the marketing of insurance products via bank employees or independent sourcing agents who are not subject to the Insurance Regulatory Authority).

This will also be necessitated by the increased product complexity resulting from the integration of banking and insurance services and the no longer clear allocation of products and services to a bank or insurance products and services category. Against this backdrop, a traditionally institutional supervision (sector supervision) is not adequate.

Instead, a form of supervision is required which stipulates generally valid minimum standards with regard to business methods for all suppliers of financial services. Self-regulating organizations may develop these minimum standards that will then be monitored by either these organizations themselves or by a state supervisory authority.

Product or market supervision that completely prohibits either certain integrated products or bundles, which requires licensing or that stipulates the marketing type and method, can also prove necessary in the bankassurance sector due to the complexity of bankassurance services. However, in order to not restrict the co-operation potentials in the scope of a bankassurance strategy too much, bundles should not automatically be prohibited, but instead should be regulated. The German insurance supervisory body, which limits the linkage of insurance and banking products if the insurable value exceeds the capital sum, offers an example of such guidelines. In Norway, in contrast, there must be an interval between taking out insurance and concluding a loan agreement. An insurance policy can only be concluded or sourced once the loan application has been accepted[86].

Far-reaching transparency guidelines are required for financial service products. These and other guidelines concerning the protection of patronage are of even greater importance in the bankassurance context than is the case for classical financial service products. As lower compatibility of services results from the integration of various services and products and in general, on account of the bundling and the fact that bank and insurance company characteristics combine, a higher complexity is inherent in bankassurance services.

In Ireland there are guidelines regarding the organization of advertising and the clarity of the communication of the product's features[87] In Austria bankassurance products are subject to the federal securities supervisory body which grants licenses for securities service companies and which monitors compliance with good conduct guidelines. The guidelines stated essentially include advertising and the clarity of the communication of the product's features. According to the Austrian insurance supervision law, additional duties to disclose information in the form of

[86] Supra note 68.
[87] Ibid.

risk information and the general communication of the performance structure result from the offer of integrated products[88].

3.5.3. Marketing and consultation

One of the most important determinants of the scope of co-operation between banks and insurance companies is regulatory conditions that affect marketing as they largely determine different bankassurance developments or the different forms of marketing co-operations between banks and insurance companies in an economy.

If regulations prohibit or restrict the marketing of insurance products via the banking channel, then the banks' employees can only source clients, something that is generally subject to the possibility of product sourcing or to the possibility of a direct sales contract. The bank's employee then passes the client onto the insurer's financial consultant on the basis of the identified investment or financing requirements.

The financial consultant then contacts the client and carries out consultation on the basis of the data received from his banking colleague. However, such client sourcing would require costly back office systems on the one hand to enable sourcing or data transfer, and on the other hand to control and carry out possible service set-offs (retrocessions). If regulations, however, permit banks to effect insurance operations themselves, the costly sourcing process becomes unnecessary, as do the costs connected with this, which benefits can then be passed on to the customer.

Regulations should also cover consultation. Consulting services frequently represent a decisive increase in value for clients and are, therefore, an important client relation instrument.

If financial service providers are not authorised to offer their clients comprehensive consulting services, a strategic marketing instrument is withheld from them. Whenever banks are authorized to source insurance products the first question posed is whether or not they can also provide consulting services in connection with the sourced products. The second question posed is

---

[88] Ibid.

whether besides product-specific consultation, comprehensive-consulting services can also be provided for the purpose of financial planning[89].

A difference is made between product-specific consultation and comprehensive consultation because different qualification demands are made on consultants. For product-specific consultation, where sourcing is restricted, for example, to a few standardized products, knowledge about product features and conditions should be required. In the case of comprehensive consultation, knowledge about the networking of different product areas, the organization of the pension planning system and regulatory and fiscal conditions that affect the client and the products suitable for that client are also necessary.

3.5.4. Bank or Insurance Company as the Parent Company

Within a company, both banks and insurance companies can carry out the function of the parent company. Using this function control can be exercised on the subsidiary in a regulated structure. The regulations should cover possible voting rights and guideline limitations concerning personnel interdependencies at various levels of the hierarchy.

If a bank is a parent company, it can be assumed that the bank has an influence over the insurance company. Regulations should limit this influence due to risk considerations as it can possibly be assumed that the insurance company's interests are endangered. Possible influence can either result from exerting voting rights in the case of majority participation or on the basis of personnel interdependencies at management or administration level.

For example, in Belgium, the bank's influence on the basis of the participation's voting right is limited, where the bank as the holding controlling company must ensure the insurance company management's autonomy[90]. In Ireland, exercising control on the basis of the voting right in the case of non-life insurance is prohibited[91].

On personnel interdependencies, if the regulations do not cover this, it may lead to influence on the insurance company subsidiary. Therefore, interdependencies ought to be prohibited at

[89] Ibid.
[90] Ibid.
[91] Ibid.

management level and partly prohibited at administrative board level. Providing that the manager may not practice any other main occupation outside of banking can also do this, as is the case in Austria.[92] The regulations may also provide that the personnel of a conglomerate unit must be clearly assignable, that is, it must be clear at all times for which conglomerate unit the personnel is working.

3.5.5. Intra-Group Transactions and Large Exposures

Intra-group transactions are transactions where a regulated entity relies on other group entities (or natural/legal persons closely linked to them) for the fulfillment of an obligation. This broad definition covers, for example, loans, guarantees, derivatives and service agreements. The point of reference is always the involvement of a regulated entity that relies on the performance under the transaction. Transactions where this entity has to deliver instead of receive would therefore not be covered.

Intra-group transactions and large exposures have to be monitored for the level or volume of risk, possible contagion, conflicts of interest, and the risk of circumventing sectoral rules. To this end there should be a requirement for the regulated entity to report on a regular basis, and at least annually, any significant risk concentration at the level of the conglomerate as well as all significant intra-group transactions of regulated entities in the group. The reporting modalities should cover the types of risk to be reported or the threshold that apply.

Internal transactions involve dealings between specific entities in a group. Internal transactions should be restricted or prevented by the supervisory authority because of the likelihood of the creation of internal group risk positions. For example, group internal lending by banks should be approved by the supervisory body because of the possibility of being able to influence decisions to be made by the insurance subsidiary. For example by requiring that in order for the insurance subsidiary to access the loan it should implement measures as directed by the bank. These measures may not be in the best interest of the insurance subsidiary but the bank views it as good for the group as a whole. The entities should also be required to disclose information on loans

[92] Ibid.

mechanisms must be in place to produce the information relevant for the supplementary supervision.

The regulated entities' shareholders and the members of the management bodies should be subject to sectoral suitability ("fit and proper") requirements. In this way, the requirements would also indirectly apply to the bankassurer. As most bankassurers adopt a top-down management system, the management would escape the "fit and proper" requirements if the entity were headed by a non-regulated entity. For this reason, the regulations should also require that the persons who effectively direct this entity's business are of a sufficiently good repute and have sufficient experience to perform their duties.

3.5.7. Approval Requirements

Approval requirements as distinguished from organizational requirements cover persons authorized to sell insurance. These include bank staffs who do not act as tied agents for an insurance company and third parties. These may cover specific requirements as well as others such as a duty to disclose any interests that the insurance seller may have.

Specific approval requirements for insurance company external sourcing agents predominately consist of qualification requirements and experience in the insurance sector. Professional liability insurance and further requirements, such as a good reputation, may also be included.

Besides special qualification requirements, insurance sourcing agents may additionally be obliged to disclose any legal or economic link to an insurance company or their participation in such companies, if these will affect the clients' interests.

Insurance sourcing agents may also be required to possess special qualifications, be subject to ongoing business monitoring, be independent from a single manufacturer and the range of goods offered must contain products from different suppliers and should not just include the products of one insurance company. These approval requirements should apply exclusively to independent insurance sourcing agents who are either self-employed or who may be employed by a bank. However, bank employees may not need separate supervision or authorization if they act as tied

agents for an insurance company. Further, where the duty of disclosure exists, separate authorization may not be necessary.

The different approval requirements affect the development of co-operation between banks and insurance companies. In countries where insurance sourcing is only possible via agents (tied agents), the client is only offered insurance products of the insurance co-operation partner. South Korea realized the risk of this on the growth of bankassurance and the Ministry of Finance and Economy and the Financial Supervisory Services imposed requirements that policies from a single insurance company cannot represent more than 49% of a bank's total insurance sales. It was further proposed by these authorities in January 2005 that this proportion be restricted to 25% (33% if two insurance companies have the same majority stake in the bank's capital[93]. This will ensure that there are no exclusivity agreements (agreements between an insurance company and a bank requiring the bank to sell insurance policies from only the partner insurance company)

Under exclusivity agreements, restrictive co-operation between banks and insurance companies are the rule and a third party supplier approach (the marketing of insurance products of different insurance companies) is not possible. The possibility of a third party supplier approach only exists indirectly when banks co-operate with independent insurance brokers.

3.5.8. Risk Monitoring

Over and above capital adequacy, effective risk management in conglomerates, [94]as in any financial group, is a key condition for financial stability. Because of their structure and the varying nature of the risks to which they are exposed, conglomerates need special attention, particularly with a view to intra-group transactions and risk concentration.

Specific provisions exist in each sector. The banking rules lay down large exposure limits while the insurance rules provide for the monitoring of intra-group risks and there are asset dispersion rules.

---

[93] Analysis of Bancassurance and its Status Around the World by Marjorie Chevalier, Carole Launay and Bérangère Mainguy. Focus October 2005 issue.

[94] In this paper the term conglomerates substitutes bankassurers as conglomeration is the most common type of bankassurance cooperation.

At the level of the conglomerate, these specific rules are not sufficient. It is necessary to ensure that certain intra-group transactions are not conducted on abnormal terms and, above all, to prevent groups from deriving benefit from the differences in the sector-specific rules by means of regulatory arbitrage.

However, the major differences in the methods applicable to each sector make it hard to envisage quantitative rules. Therefore, regular reporting (at least once a year) to the authorities on risk concentration at conglomerate level and on significant internal transactions should be made mandatory.

3.5.9. Information Exchange between Authorities

Effective supervision depends on the legal capacity of the authorities to exchange information. The authorities responsible for supervising the various entities forming part of financial conglomerates should pass on to each other all relevant information and they should especially exchange the basic information on the conglomerate's structure, its financial situation, its organisational set-up and on any problems that might affect the companies belonging to the group.

The importance of this in achieving effective and efficient regulation cannot be gainsaid. The information exchange process should be proportionate and risk focused to avoid unnecessary information exchanges. It should draw on communication within existing and further enhanced operational networks so as to be as spontaneous as possible, allowing any supervisor to take the initiative to submit an issue deemed necessary to be raised. Lastly, the information should be communicated on a timely basis.

It is neither possible nor desirable for supervisors to be in constant communication about every aspect of their groups. Therefore, supervisors should consider carefully whether information is essential or relevant. Essential information is that with a material bearing on the assessment of financial soundness of a group. Those requesting information should always be prepared to demonstrate why what is being sought is directly relevant to their responsibilities.

It should however be noted that the bedrock of good communication is having a network of people who know one another well and can contact each other early when the need arises. No set of more formal arrangements can, or should aim to, supplant this.

3.5.10. Scope of the Regulations

The regulations should define strictly which groups fall under its regime of supervision. However, there might also be entities that do not meet the strict definition of groups that fall within the regulations, for example because their financial or cross-sectoral activity does not reach the minimum thresholds provided for in the regulations. This will necessitate the authorities to decide whether to come up with a supervisory regime for such entities, in which case the framework introduced by the regulations will be a useful reference point for defining such a regime.

3.5.11. Transparency

The regulations may be clear on the criteria for a group to qualify for regulations under it. However, for those who only have access to public information, which is the majority of Kenyans, it will be very difficult to check whether a particular group indeed falls under the supervision. With a general trend towards increased transparency and a growing role for market discipline, the authorities should therefore be obliged to publish a list of groups that fall under the scope of the regulations. In the United States, for example, the Federal Reserve Board, in its role as umbrella supervisor, publishes a list of financial holding companies that fall under its supervision, as well as financial information on those companies.[95]

Another potential cause of insufficient transparency is an absence of common rules regarding the financial statements of financial conglomerates.

Just as there are laid down reporting rules for banking and insurance groups, there should also be commonly agreed rules for bankassurers. This is because the lack of minimum harmonization would hamper comparability across groups and the effective working of market discipline. It

[95]'Assessing Financial Modernization in the United States, Europe, and Japan. Conference Report presented by Robert E. Litam and Yasuyuki Fuchitai.

may also result in a higher funding cost, as investors will demand a premium for the ensuing uncertainty related to the financial reporting.

3.6. The Regulatory Authority

The regulatory structure should take into account the sectoral differences between insurance and banking. It may therefore provide for separate organizational units for banking supervision and insurance supervision

3.6.1. Functions of the supervisor

Functions that are presently undertaken by the Minister for Finance, the Central Bank of Kenya on banking supervision and the Insurance Regulatory Authority on insurance regulation will be under a single state regulator that supervises banks, financial services institutions and insurance undertakings across the entire financial market[96]. Under the new regulatory structure, the supervisor will only grant licenses for financial services where an institution proves that it is able to comply with the regulatory standards governing adequate capital, organization and personnel.

Overall, the supervisor's approach should be to pursue a supervision policy that embraces all key aspects of consumer protection and solvency supervision. Indeed, it should make valuable contributions to the stability of Kenya as a financial centre and improve its competitiveness.

To achieve these goals, it should be entrusted with enforcement rights, which it can use to counter undesirable developments (in banking and financial services) that could adversely affect the stability of the financial sector. It should have wide-ranging powers, which include the right to request information on business activities of a financial institution and, in cases of illegal business practices, to refuse or revoke that institution's license. It should also be given wide-ranging investigative powers to enter and inspect the business premises of a financial institution and under certain circumstances, to search for documents and other related items and if found, to securely keep such evidence.

[96] This is the structure adopted by BaFin, the German Unified Supervisor. Source; http://www.germanlawjournal.com/article.php

The authority should also co-operate closely with the attorney general in cases of criminal offences. Offences of this kind include unlawful business practices, insider dealing and manipulation of market and stock exchange prices. This is because only the attorney general has legal authority to commence proceedings for the prosecution of criminal offenders. However, the authority should have the right to prosecute and impose administrative fines where the contravention of a statutory provision or a regulation constitutes an administrative offence.

This new organizational structure will result in synergies. The integration of the former supervisory offices in a single body will enable them use their know-how and experience more efficiently, especially with regard to the trend towards product convergence and the emergence of financial conglomerates. Moreover, there will not be a need for coordination between individual supervisory offices, which in other jurisdictions has often been time consuming and caused considerable expenses.

However, despite organization of financial supervision in a single body this does not mean that existing sectoral differences between the banking and insurance businesses should be disregarded. These differences have led to the development of specific supervisory methods and rules for banks and insurance companies that have proved to be successful. Thus, when creating the new structure the legislator should not change the substantive laws underlying supervision such as definition of a bank or insurance company, minimum capital requirements and their core business.

Under our present financial supervision laws, there is strict separation between banking supervision on the one hand and insurance supervision on the other hand. Banking activities are regulated by the Ministry of Finance and the Central Bank of Kenya while insurance supervision is controlled by the Insurance Regulatory Authority. There are also bodies developed in the two sectors to supplement regulation undertaken by the government. The banking sector has the Association of Kenya Bankers while insurers have the Association of Kenya Insurers. However the Ministry of Finance exercises some general authority in some matters such as setting the minimum capital requirements for both industries.

The new supervisory structure should take account of sectoral differences between the two industries and create separate organizational units for banking supervision and insurance supervision. Cross-sectoral tasks necessitated by the developments in the financial markets can be carried out by several cross-sectoral departments, organizationally separated from the traditional supervisory functions.

The regulations should seek to establish a coherent approach to the supervision of bankassurers, ensuring that relevant parts of a bankassurer's business do not fall between the regulatory cracks while at the same time minimising the regulatory reporting burden placed on firms. The regulations should also aim at ensuring that all risks arising from conglomerates are recognised and addressed.

Our authorities have experience in bringing supervisors together, whether in the form of banking colleges, insurance coordinating committees, or more informal supervisory dialogues. Such arrangements permit more effective supervision and, if applied wisely, bring benefits to firms in terms of reporting and more efficient supervision. The regulations should provide a framework that builds on these already established lines of communication and co-operation.

The supervisor should disseminate important information among other authorities involved, establishing an overview of the financial situation of the bankassurer, and planning and coordinating supervisory activities both in times of normal activity and in emergencies. The establishment of ownership of these duties and responsibilities is helpful in providing clarity and certainty for both the firms and the authorities. Used well, this should help to ensure that material risks are addressed in a way which minimises duplication of activity by the authorities.

For other areas, the regulations may be less prescriptive, and allow the supervising body a degree of freedom to define the concrete elements. This might be the right way to proceed due to factors such as the need to accommodate the peculiarities of individual groups or the lack of clear market standards. However this should be done cautiously as flexibility also opens the door to an uneven playing field.

3.7. Conclusion

Bankassurance should be encouraged by the government as a policy to increase the population of Kenyans under one form of insurance or another. The most effective way of doing this is through implementation of policies that encourage bankassurance ventures.

However, this should take into account the fact that such mixed financial services groups create certain risks to which the groups and public authorities have to respond appropriately. These risks have been studied above. It is therefore imperative that the regulations put in place ensure that:

1. Entities that engage in bankassurance have the requisite capacity to make the investment and to sustain it and,
2. The government has set up a regulatory structure to control bankassurance ventures in order to avoid a failure of the financial system of the country.

Additionally, the firms should ensure that they develop an organizational structure and tools to help them ensure that the business they conduct is subject to proper controls.

4. Bankassurance Advantages and Recommendations for its Successful Adoption in Kenya

4.1 Introduction

This chapter provides suggestions on how best Kenyan banks can engage in bankassurance. Additionally, it looks at the various advantages that accrue to bankers, insurers, customers and regulators as a result of engaging in bankassurance.

The banking and insurance industry have changed rapidly in an evolving and challenging economic environment. New entities are coming up thus making the number of banks and insurance firms in Kenya rise. The Minister for Finance in an attempt to stem this rise increased the minimum threshold capital from Kshs. 250 million to Kshs.1 billion for banks and between Kshs. 150 million and Kshs. 450 million for insurance companies[97]. 25 out of 43 banks fell under this mark at the beginning of this year[98]. This will most likely lead to mergers of smaller companies in order to meet the required minimum capital[99].

Insurance companies also need to be competitive by cutting cost and improving service delivery to their customers. They should therefore choose and adopt appropriate distribution channels through which they can get the maximum benefit and serve customers in manifold ways. Multi channel distribution and marketing of insurance products is the smart strategy to adopt in order to continue playing an important role in distribution. Alternative channels like corporate agents brokers and bankassurance should play a greater role in distribution. The time has come for the industry to gradually move from traditional individual agents towards new distribution channels with a paradigm shift in creating awareness and not just selling products.

As we saw in previous chapters Kenya has a very low insurance penetration rate of just 1%. Though there is a massive campaign by financial entities to encourage more people to save their earnings, there is no emphasis on channeling this savings towards insurance. To successfully stream the savings towards insurance, bankassurance is the best channel to adopt in order to

---

[97] Finance Bill 2007.

[98] Bankelele.blogspot.com <25th June 2007>

[99] Some companies may opt to raise funds from the public which of late has become a very popular source of cheap funding for companies.

overcome major challenges in the industry namely: product innovation, distribution, customer service and investments.

4.2. Why Encourage Bankassurance?

Depending on the type of bankassurance adopted various advantages accrue to the stakeholders namely, the insurer, the banker, the customer and the legislator, as reviewed hereunder. These advantages are likely to be realized in bankassurance models where there is some level of integration such as in a subsidiary model, total integration model or in a joint venture. This is because these allow the use of resources of the bank, especially the customer database, thereby creating synergy.

4.2.1 Advantages for the insurance company

Advantages to the insurer include improved customer base, variation of distribution methods, reduced distribution costs and easier establishment in a new market.

4.2.1.1 Improved Customer Base

Through bankassurance, the insurance company can significantly extend its customer base and enjoy access to customers who were previously difficult to reach. This is a great advantage to the insurer as this is likely to translate to more sales. The insurer can use the bank partner's customer database to identify potential customers and offer products that they may require.

The bank clients may also offer a different demographic matrix (by age, sex, purchasing habits) to the one that the insurer has previously courted. For example, an insurer who previously concentrated on high net worth individuals (HNWIs) can now gain access to a wider range of customers who will not all be HNWIs.

4.2.1.2 Variation of Distribution Channels

The insurance company also has an opportunity to vary its distribution methods, in order to avoid excessive dependence on a single distribution network. This also reduces risks that are inherent in reliance on a single distribution agent. Further this new, cheaper distribution channel allows for the sale of some products that could not previously be sold as the economics of the bankassurance operation may allow the insurer to offer products which are not feasible through the existing channels. For example, sales costs incurred under existing channels may force premium rates for a product to be uncompetitive, so the product is not sold. The costs via the bankassurance channel may be low enough to make it feasible.

4.2.1.3 Reliance on the Bank's Image

In situations where a bank has a solid image and is much trusted by its customers in offering sound financial advice, the insurance company can ride on this image and reliability, as people are likely to view the product as another sound product from the bank.

4.2.1.4 Reduced Distribution Costs

The insurance company can also benefit from the reduction in distribution costs relative to the costs inherent in traditional sales representatives, since the bank uses its existing channels to sell the insurance products along with its own products. These cost savings can then be carried over into the costs included in the insurance contracts. Products can therefore be sold more cheaply.

4.2.1.5 Easier Establishment in New Markets

Another advantage is that an insurer can establish itself more quickly in a new market, using a local bank's existing network. This therefore reduces costs related to advertising and other awareness programs.

4.2.2 Advantages for the Bank

Advantages of bankassurance to the bank are source of revenue, increased productivity of staff selling more products and enforcing customer loyalty.

4.2.2.1 Bankassurance as a Revenue Source

Bankassurance is a way for the bank to create new revenue flow and diversify its business activities. This is especially so when there is increased competition between financial institutions and a reduction in the banks' profit margins which necessitates the need to look for new business.

4.2.2.2 Variety of Products

Through bankassurance the bank becomes a sort of 'supermarket', a 'one-stop shop' for financial services, where all customers' needs – whether financial or insurance-related – can be met. The broadening of its product range makes the bank more attractive and can reinforce customer satisfaction and therefore customer loyalty. Additionally, the one-stop shop model optimizes the use of the network and increases the profitability of the existing branch network. The joint bank and insurance products can be better for the customer as they provide more complete solutions than traditional standalone banking or insurance products.

It is also worth noting that the distribution costs can be seen as marginal since the bank can use its own employees to sell the insurance products.

4.2.2.3 Increasing Staff Profitability

Bankassurance also offers an opportunity to increase the productivity of staff, as they now have the chance to offer a wider range of services to clients, discovering customer needs and promoting or manufacturing new products or services. The quality of client information gives an entity an advantage in distributing products profitably, compared with other distributors such as traditional brokers or insurance companies.

4.2.2.4 Enforcing Customer Loyalty

Banks are experiencing the increased mobility of their customers who to a great extent, tend to have accounts with more than one bank. Therefore, there is a strong need for customer loyalty to an organization to be enhanced. Client relationship management is a key strategy in achieving this. To build and maintain client relationships, banks and insurers should form partnerships tc

provide their clients with a wide range of bank and insurance products from one source. As the number of products that a customer purchases from an organization increases the chance of losing that specific customer to a competitor decreases.

4.2.3 Advantages for the Consumer

Advantages to the consumer include greater access to more financial services, lower costs and suiting products.

4.2.3.1 Access to More Financial Services

As mentioned among the advantages accruing to the bank, the consumer enjoys greater access to all financial services from a bank that offers both banking and insurance products. A customer can therefore fulfill all his financial requirements at one shop.

4.2.3.2 Lower Costs

Since the distribution costs are lower than in a traditional distribution network, the consumer can get cheaper insurance products than through traditional channels. In addition, premium payment methods are simplified, since premiums are collected directly from bank accounts;

4.2.3.4 Suitable Products

The special relationship between the customer and the bank means that there is a better match between what the customer needs and the solutions provided by the bank.

In summary, we can say that the customers would benefit from the opportunity to get simple, often inexpensive insurance products with a premium payment system adapted to their needs such as monthly installments, and with easy access, since the bank's branch network is denser than the network of insurance outlets.

4.2.4 Advantages for the Authorities

The role of the oversight authorities or of the government itself is to make laws to ensure that the risks taken by the country's financial institutions are actively managed and controlled in such a way as to maintain sound national finances. However, events may occur that are outside the

control of individual and national managers, which may impact upon the whole financial system. These risks are referred to as "systemic risk"[100]. For financial institutions, bankassurance can be a means of limiting such systemic risk because it diversifies the bank's sources of revenue, making its business more stable and thereby safer for its customers too.

4.3 Recommendations for Development of Bankassurance in Kenya

Kenya is lagging behind in bankassurance even in comparison to other African countries[101]. In view of the advantages highlighted above, it is imperative that measures be put in place to spur growth in the sector. What are some of these measures?

The reality of bankassurance is multifaceted[102]. A clear success in many markets such as France, Spain or Italy, it remains a marginal player in other countries. However, as noted in the previous chapter it is not easy to understand why it fails to develop in the same way everywhere, because the keys to success are numerous, variegated and sometimes surprising. It is also difficult to establish priorities and identify determining factors, because each country's situation, history and culture contribute to the rate of bankassurance success in that territory.

This study, however, recommends the following measures as a first step towards encouraging bankassurance in Kenya: providing a favourable environment, utilizing the banks distribution network, enhancing banks' market image, providing an integrated management model, proper training and adequate remuneration.

4.3.1 A Favourable Environment

As we saw in the previous chapter, the legal framework is important in determining the success of bankassurance in a country. Our legislators should therefore enact laws that favour bankassurance ventures. The Minister for Finance has set in motion measures that may lead to this. In this year's Finance Bill, he increased the minimum capital requirement for all financial institutions. This may indirectly result in bankassurance ventures if banks and insurance

[100] See chapter 3 for an analysis of systemic risks.
[101] See chapter 3 for African countries that are engaging in bankassurance.
[102] See chapter 3 on this.

companies resort to mergers and acquisitions in order to meet the raised minimum capital requirements. However, if the institutions are left unto themselves to do this, we are likely to be disappointed as they may opt for other sources of funding their operations. Therefore, authorities should provide incentives for bankassurance ventures. A starting point in this would be repealing Section 13 of the Banking Act that prohibits cross-shareholding in financial institutions that severely hampers mergers of a bankassurance nature.

Tax incentives can also play a big role in this. Offering tax breaks to entities that venture into bankassurance as well as to their products will cause such products to be sold cheaper thereby leading to more sales of the products.

4.3.2 The Distribution Network

A banking network with a dense and structured geographical presence is an essential feature of a successful bankassurance venture. Numerous points of sale offer customers or prospects geographical and human proximity, which will facilitate contacts between banks and consumers and therefore increase sales opportunities. Proximity to the customer is a factor whose importance should not be underestimated. It is a fundamental factor in establishing a relationship and, therefore, a sense of trust and loyalty.

Effective network should also be emphasized, since it might be said that banking networks enjoy a 'homogeneity', which makes it possible not just to harmonize products and sales processes but also to coordinate sales campaigns and to impose image-related standards. Banks in Kenya should, therefore, be encouraged to open more branches in the country especially in rural areas.

4.3.3 Market Image

The way consumers perceive banking and the role it plays in society are two essential factors. This image can be a direct consequence of the way the banking network is organized and how many branches it has in a country. In countries like France, Spain, Italy or Belgium, perception of the banks is good: customers have a special relationship of trust with their bank or banker[103].

---

[103] Chevalier M., Launay C. and Mainguy B.: *Analysis of Bankassurance and its Status Around the World,* Bankassurance Focus, October 2005 issue.

Banks also benefit from the impression, justified or not, that they are better than insurance companies at handling financial issues. This trusting relationship is directly proportional to the power of the brand power and its true reputation. Customers in the countries mentioned above believe in a face-to-face relationship with their banker[104].

The Anglo-Saxon countries take a different approach and most banking transactions are conducted online or by phone. It is worth noting that in these countries bankassurance has made no significant inroads[105]. It is also worth noting the example of Germany, where the banking network is fragmented. Banks are often organized into small, more or less independent Savings Banks. In consequence, without banks that enjoy strong positions or a high profile image in the market, bankassurance has failed to penetrate to any degree[106]. Banks should therefore be encouraged to cultivate a strong brand image through publicity campaigns and by building trust and loyalty among their customers, among other measures.

4.3.4 An Integrated Management Model

An integrated management model is important in enabling bankassurance to establish a crucial competitive advantage. Bankassurance is based on a particularly efficient management model that is totally integrated with the banking business. Thus, in certain parts of the world such as the Benelux[107] countries, bankassurance operators have managed to integrate their activities completely, since every insurance policy is automatically processed through banking network IT systems.

In addition, this kind of integration gives the networks a comprehensive overview of their customers' assets and requirements. The objective of joint management is also to pool information for all the bank's sales channels (branches and telephone sales among others), and to create a database that can be used both by account managers and for different purposes by other bank departments, such as marketing surveys or new product launches.

---

[104] Ibid.
[105] Ibid.
[106] Ibid.
[107] Belgium, the Netherlands and Luxembourg, source: Third Year, Issue 25 HORUS 6 of 15 March 20, 2002

The success of bankassurance lies in the quick sale, sometimes directly over the counter in the branch. For this, the sales forces need to have access to an effective IT and information retrieval system. Providing customers with real-time answers over the counter is a major asset in the selling process. Having fully integrated data processing systems within the banking network means that insurance premiums can be calculated on the spot and contracts issued immediately. This is an important advantage because it must be possible for the potential customer to receive a response, if not immediately, at least within a few days.

As bankassurance develops, banking networks should seek increased decision-making autonomy from insurance company back offices thus allowing them to respond instantly to potential customers. This is especially so in case of total or partial integration. They should develop tools that enable sales personnel to handle the majority of situations and only to pass 'nonstandard' cases or cases requiring special expertise on to the insurance company. In the world market, a large number of expert bankassurance software applications have emerged, which increasingly make it possible to decentralize acceptance decisions to branches and thereby speed up decision-making while reducing contract processing costs.

4.3.5 Management and Remuneration

To raise productivity and lower costs in today's competitive economic environment, organizations are increasingly setting compensation objectives based on a pay-for-performance standard. The designer of the remuneration package should seek to develop a package that helps each one in the distribution channels to feel that they get a fair reward for their contribution. Bankassurance is a particular kind of selling method, which primarily succeeds because of the way its network functions and is managed.

The compensation package is an important element in a sales organization, which can influence the volume of business, the costs, the profitability, the productivity and the customer care. Before proceeding to the design of the compensation package, an organization must consider the following:

- Financial services providers need to be sure they have the right people, in the right jobs, with the right skills, and at the right price;

- A package therefore needs to be designed to attract and retain the kind of people the company needs in order to develop the kind of sales organization the company wants;
- In developing this package an organization must have clearly in mind what it wants to be in the future, not just now;
- Before its implementation, the package must be clearly communicated and explained to everyone involved in the bankassurance venture.

Remuneration tools for agents of a bankassurer can be similar to those used for other insurance agency forces and may include:

- Initial commissions to encourage sale of new business;
- Renewal commissions on persistent business;
- Other fringe benefits, including pension and health insurance among others;
- Guaranteed salaries (such as percentage of last year commission).

For managers of agency teams, whose role is not to sell business but to get their agents to do so profitably for the organization, remuneration packages can include further items that reflect this role. Examples include:

- Percentage of commissions earned by the agency team;
- Persistency bonus (for example, share of renewal commissions);
- Rewards when members of the agency team reach specified targets.

In setting benefit levels some features that are distinctive to a bankassurance operation that should be taken into account are:

- The package needs to be one that will attract agents to work for the bankassurer;
- The bankassurer must be able to explain to the agent the reasons for the particular structure;
- For a bankassurer with several channels, the terms must be considered for each channel separately to make each channel attractive to both potential agents and to the operation.

One aspect in looking at terms for each channel is to bear in mind the opportunities each channel has for selling business and generating income.

Some of the business sold by the agency force may be due to warm leads provided by the bank. In turn, the agent has to do less prospecting - and less work - to make the sale. The initial commission paid to the agent should reflect this. The proportion not paid to the agent can be used, among other things, to reward the bank branch and its employees for their effort in making the sale.

Any commission payable by the insurance company should, as a principle, be credited to the bank profit centre for the bankassurance operation. The bank management can set the commission level for each manager and employee engaged in the bankassurance operation.

For simple packaged products employees could be rewarded with gifts and/or salary increments based on their selling performance in promoting both banking and insurance products. Such performance could be quantified via the use of a points system where by the various products are allocated as a number of points.

In return for providing warm leads, the bank will get a share, say 50%, of the normal first year commissions. A basis is needed for allocating this amount between branch staff (who provide the warm leads) and the bank owners.

4.3.6 Training

Banks should engage in a massive training program in the distribution networks to create an awareness of, and interest in, insurance, to build up expertise and thereby to reinforce the trust that customers feel for their bankers in their additional insurance role.

Under the training program, the sales force will need to have (at least) basic knowledge of the banking products sold by the operation and of the range of distribution channels in force. The sales agent needs to learn to cooperate with bank employees and must learn how to build effective relationships with people whose job motivation may be very different to his/her own. Further, the sales agent and sales manager must understand and be prepared to meet the standards for customer service that the bank expects in respect of its customers.

Some of the aspects of insurance business that the bank employees will need to be trained in include; features of the insurance products; how to identify and approach a potential customer; basic insurance needs; handling basic objections; other distribution channels and products; expected roles; procedures; remuneration and incentive schemes; cultures and customer service.

Apart from initial training, there should be further training to support the development of the agent or employee. This can be done through agency meetings, bank branch meetings, area banking meetings, in-house magazines, training circulars, area sales seminars, company library, video tapes, certified courses, lectures and training material booklets. A training activity record is a vital element for the manager of staff in a bankassurance operation.

4.3.7 Quality Customer Service

This subject is fundamental to the successful development of bankassurance

Quality customer service refers to every single activity that the company, its employees and the distribution channels undertake for its customers. Bankassurance operators should put the customer at the very heart of their thinking and development strategies. This means:

- Providing a full range of financial products and services (banking and insurance) through a single sales network;
- Offering high-quality advice through readiness to listen and accurate information;
- Quickly meeting customer needs by a branch-based IT system but also easy access to the service, with telephone support centres or Internet platforms;
- Providing know-how and follow-up (especially claims management) as good as the best traditional insurance providers.

In all cases the objective of every person in the company should be to give added value to every transaction or communication, providing additional incentives to customers and enabling the company to distinguish itself from competitors, improve its image among customers, keep its existing customers, attract new customers, and create additional sales among existing customers.

In a bankassurance venture quality customer service is even more important because the bank refers its customers to the insurance company. The bank relationship with the customer can be

damaged by poor service from the insurer. For this reason, the insurance company staff, including the administrators who will deal with the customers' questions must be aware of the standards expected by the bank on behalf of their clients. These service standards should be written down and agreed upon between the bank and the insurance company.

4.3.8 The Insurer's Products Features

The insurer's products features are important to the success of bankassurance. A 'novice' bankassurance operator can start by distributing simple, standardized products, which are sometimes even 'packaged' with bank products. These products can be integrated into the bank's sales procedures and into its management methods. Aligning them on banking products makes it easier for the banking networks to sell life insurance products. The products distributed must be completely suited to the banking network. They should be synchronized with the bank's sales procedures, which include standardized application forms, the simplest possible medical and financial selection and standardization of all transactions. This may mean relatively low sums insured to make selling easier, because lower protection levels mean smaller premiums, which customers are more likely to accept. Without this pursuit of simplicity, the networks would undoubtedly be very reluctant to offer their customers banking and/or insurance products indiscriminately.

However, because of the strong similarity between life insurance and savings products, care must be taken that these products do not replace bank products but genuinely complement the existing range. This can be challenging for both banks and insurance companies. Bankassurers should ensure that insurance products are perceived as complementing rather than competing with basic bank products. It is crucial that new products should be well integrated into the existing range in order to avoid a proportion of bank savings being diverted into insurance vehicles.

Diversifying the product range sold by bankassurance operators should be considered only when the banking networks are already familiar with the concept of life insurance and when the market is sufficiently mature to accommodate more complex products. However, the important thing is always to supply products that are easy to explain and to define and which have limited options

for choice as this reduces the need to constantly refer customers to the insurer to explain product features.

In most jurisdictions, much fewer non-life insurance products are distributed through bankassurance than life insurance products. There are several reasons for this. The main reason may be the complementary nature of life insurance and banking products: bank employees are already familiar with financial products and quickly adapt to selling insurance-based savings or pension products. On the other hand, the non-life market requires special management and selling skills, which are not necessarily prevalent in bankassurance. In addition, such competencies require significant investment in training and motivation, and therefore additional costs. Bank advisers can use their knowledge of their customers' finances to target their advice towards specific needs. This is a major advantage in life insurance and less important in personal injury insurance;

4.3.9 The Model Chosen to Create the Bankassurance Operator

No model will help identify the strategic alliance and generate diversification because each insurance company and each bank must find the approach that matches its particular situation, its needs and its cultural and regulatory environment. However, certain models are more common in certain regions. In Europe, we generally find highly integrated business models, while in Asia the more widespread model is distribution and joint venture agreements. However, no single model dominates a whole market[108].

If the model is totally or partially integrated, setting up single structures (IT system, sales networks) can generate increased efficiency and make it possible to reduce distribution costs to an optimal minimum. However, certain players may prefer simple distribution agreements which offer greater flexibility and freedom in taking decisions and making choices about what products are distributed, about communication and advertising and about policy handling.

---

[108] Third Year, Issue 25 HORUS 6 of 15 March 20, 2002

Integration should be the preferred model especially where bankassurance is not yet developed. This is because while allowing the use of a bank's customer database to identify customers' insurance needs and hence package the products accordingly, it is easier to refer customers to the insurer for more complicated products.

4.3.10 Insurance Penetration Rate

Bankassurance is also likely to succeed in Kenya, as the penetration rate enjoyed by insurance is still low. Bankassurers can successfully create alliances or partnerships with insurance companies that are familiar with the customs and needs of local consumers, or with local banks that already have dense and organized branch networks. Through these agreements, bankassurance can be set up at relatively low cost, yet very fast and effectively.

4.4 The Way Forward

In order for bankassurance to take off successfully, the co-operation of all stakeholders is vital. Banks, insurers, the government as well as the consumers should play a role in ensuring its success. If left to only one group of stakeholders such as banks, they are likely to meet numerous hurdles such as bureaucratic red tape, uninformed consumers and unwilling participants among insurers. In the long run, the costs of acquiring insurance firms will be tremendously high which costs are likely to be passed on to consumers thereby making the products unattractive.

It should be stated that the government can make the most important contribution to bankassurance development by enacting legislation encouraging the same and offering tax incentives to bankassurance entities and/or products.

With the co-operation of all stakeholders, Kenya will undoubtedly make great strides in bankassurance to the benefit of all.

UNIVERSITY OF NAIROBI LIBRARY
P. O Box 30197
NAIROBI

Bibliography and Suggested Readings

1. Marriages Made in Bankers Heaven: Bankers Digest, January- March 2004 issue.
2. Johnson S., Tackling the Frontiers of Micro Finance in Kenya; The Role For Decentralized Service, Center For Development Studies, University Of Bath, U.K, at Pg 4.
3. Mwangi M., African Review of Business and Technology.
4. Kumar M., Bankassurance: A SWOT Analysis, The Insurance Professional, May 3, 2007, p.3.
5. Macey J. R. Integration of Financial Services. www.edsaz.com/whitepapers/sarbanesoxleyact
6. Dierick F., The Supervision of Mixed Financial Services Groups in Europe. Occasional Paper Series, No. 20/August 2004 by the European Central Bank.
7. Analysis of Bancassurance and its Status around the World by Marjorie Chevalier, Carole Launay and Bérangère Mainguy. Focus October 2005 issue.
8. Mwendwa K.K., Legal Aspects Of Unified Financial Supervision In Germany ; German Law Journal No. 10 (1 October 2003).
9. Regulatory Conditions for a Bankassurance Strategy in Europe. Report of the Swiss Institute of Banking and Finance at the University of St. Gallen-Institute of Economics, Law and Social Sciences.(HSG) Report No.:S/Bf/BB/SA/02. Chaired By Prof Dr.B. Bernet.
10. Briault C., The Rationale for a Single National Financial Services Regulator, Occasional Paper Series No. 2, (London: Financial Services Authority, May 1999).
11. Mwenda K.K. and Fleming A., International Developments in the Organizational Structure of Financial Services Supervision: Part I, 16 Journal of International Banking Law No. 12 (2001).