THE IMPACT OF ACQUIRED IMMUNE-DEFICIENCY SYNDROME (AIDS) SCOURGE ON LIFE ASSURANCE CLAIMS

A case study of an Insurance Company based in Kenya.

BY

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A Project Report submitted to the School of Business Administration and Management in partial fulfillment of the requirements of the Masters Degree in Business Administration.

U.S.I.U.-AFRICA

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STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other College, Institution or University other than the U.S.I.U – A for academic credit.

Signed ___________________________ Date 2-5-2000

Rebecca W. Muturi

This project paper has been presented for examination with my approval as the appointed supervisor.

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Dr. Freida Brown (Deputy Vice Chancellor, Academic Affairs)
DEDICATION

To,

My Dear Mummy,
The memory of my late father,
My sisters; Meggy, Anne, Kizzy, and Mary.
My Dear friend Benjamin.
ACKNOWLEDGEMENTS

The success of this project report would not have been realized without the
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ABSTRACT

The Acquired Immune Deficiency Syndrome (Aids) is causing humanity a lot of loss. Many people, research institutions and business organizations are trying very hard to understand this disease and come up with the best ways of overcoming it.

The main purpose of this research project is to find out the impact of Acquired Immune- Deficiency Syndrome (AIDS) on the life assurance claims of an insurance Company. To further address this purpose, the researcher set out objectives which aim to find out how much premium has been collected for life assurance business, how much has been paid to life claims, and how much money has been paid out to Aids related claims. The protective measures, which included administration of lifestyle questionnaires and blood tests to the prospective life assurance proposers, have also been looked at.

This research project is of a case study nature. The researcher therefore conducts a desk-research, which allows easy access to the source of the data. For this project, one thousand nine hundred and fifty eight life assurance cases were looked at. The data is collected from the Company's Books of Accounts and the Claims Registers. This research project is aimed at presenting a clear and detailed picture of how Aids has impacted on one insurance company. The data is of secondary nature, as it has been obtained from the Company records.
The research found out that the premium, life claims, and Aids related claims have increased from Ksh. 98,843,919, Ksh. 11,563,374, and Ksh. 564,269 in 1989 to Ksh. 31,848,000, Ksh. 97,006,000, and Ksh. 17,623,359 in 1998 respectively. This shows a percentage increase for the proportion of life claims to premium received from 11.70% in 1989 to 31.11% in 1998. The percentage increase of the proportion of Aids related claims to that of the life claims has been from 4.88% in 1989 to 18.17% in 1998 respectively. Protective measures such as the administration of lifestyle questionnaire and blood tests to prospective life assurance proposers have been employed so as to guard against and minimize this loss.

In conclusion, the study has shown an increasing trend for the premium, life claims as well as the Aids related claims. This therefore calls for further investigations into the abilities of the protective measures applied to guard against increasing this increasing revenue loss. A parallel study conducted on all other insurance companies is seen as a possible area for future research so as to come up with a clearer industry picture of how the Aids scourge has impacted on the industry's life assurance claims.
CHAPTER ONE

INTRODUCTION

This chapter will look at the background, the statement of the problem, the objectives of the study as well as the definitions of some of the terms used in the study. The background information includes issues about the insurance business such as where insurance gets its revenue. The problem statement will look at the importance of the research to the nation as well as the insurance industry. The objectives will state what the study wants to achieve. The definitions of the terms as understood by the researcher, will explain the meanings as intended for the purpose of understanding them as used in the study.

BACKGROUND

This paper seeks to study the impact of Aids on the Life Insurance industry in general and the impact it has had on the life assurance claims of a particular Insurance company. Aids has emerged as a national disaster as well as a threat to the existence of the life insurance industry as we know it today. Numerous deaths and illnesses that are as a result of the Aids causing virus have continuously and consistently continued to cause a negative flow of incomes in both public and private life since the advent of the disease in the late 1970's.
The business of insurance derives its revenue from the people it has insured, otherwise called the insured. The insured pay a regular amount to the insurer called a premium. This premium is the revenue due to the insurer.

Actuaries arrive at the premium rate after careful consideration of the nature of the risk. Each risk has its own special considerations. The premium rates are different for every risk insured but there are basic rates for every category.

Premiums received by insurers are affected by various including the period of insurance, sum insured, age of risk, and the class of insurance. For the life insurance, premiums are affected by age of the assured, the period of insurance, health status of the assured, the sum assured, and the type of life assurance taken out. The life assurance premiums continue to be affected by this new challenge of the Aids scourge especially in the areas of:

1. The relatively inexperienced personnel's inability to measure the impact of this new underwriting risk on the life assurance claims.

2. The growing challenge to the limited, locally available actuaries to incorporate this new risk in the mortality tables in order to come up with a new pricing system for life assurance.

3. Ignorance from the insuring public, which leads to resistance and opposition to some measures used by life insurers to protect themselves against paying for claims arising from Aids related deaths.
4. The vulnerability of the group life schemes that cover large numbers of employees and does not require any proof of medical insurability. This is where the greatest impact of Aids on life assurance is felt.

5. Rising cases of fraudulent claims reported some of which are even paid and is discovered too late. This has led to insurance companies seeking co-operation from stakeholders in this industry.

This paper shall also look at Aids as understood by the insurance industry and the inherent threat that the industry's exposure to this scourge is to its survival. Current practices that the industry has undertaken to deal with Aids and the possible future measures.

The company under study was incorporated in 1937. It set up office in the Central Business District of Nairobi where it is to date. It has wide a representation through its many branches, brokers and Agencies. It has branches in Mombasa and Kisumu as well as in the countries of Tanzania, Uganda and Mauritius. It has life agency units in Mombasa, Kisumu, Nairobi, and Nyeri. The workforce in Kenya is composed of ninety-eight members of staff most of them insurance professionals. The company offers security and service in various classes of insurance including fire, accident, marine, motor and life. Fire insurance covers fire damage caused by lightning, explosions of gas in both domestic as well as industrial situations, and subterranean fire. Marine
insurance will cover damage or loss to sea faring vessels such as ships and 
boats. Motor insurance provides cover for both commercial and private vehicles 
in respect for loss or damage or any other liability incurred by the vehicles. The 
life insurance section has the following subdivisions: - whole life insurance, 
dowment insurance and universal life insurance.

Even though the Kenyan economy seems to be slowly sliding into recession, 
coupled with natural disasters – drought and El Nino rains, and with a reduced 
level of foreign investment and the withdrawal of donor aid, the annual life 
portfolio has increased from Ksh. 98,843,919 in 1989 to Ksh. 311,848,000 in 
1998.

Thus, the life department has shown a reasonable growth over the ten years 
even under the prevailing unfavourable market conditions.

Over the ten year period under study, it was observed that the company’s main 
clients are organizations. Corporate/organization clients form approximately 
(86%) eighty-six percent of the total life policies population. The other fourteen 
percent is made up of individual life policyholders. Because of the difficulties of 
marketing and selling life insurance to the general population, the rich and well-
to-do individuals who form the majority of these 14% have mainly purchased life
insurance. Other individual life policyholders are the senior corporate executives who are the beneficiaries of their employers.

Ownership of the company is mainly local with 60% of the directors being Kenyans of Asian origin, 20% percent being Kenyans of European origin, and 10% being indigenous Kenyans.

PROBLEM STATEMENT

The study is important to the nation as it shows how the scourge is eating into the financial and human resources of the nation. This has a direct impact on the profitability and productivity of national projects. This impact is directly translated to the overall economic environment and national development of the country. Sufferers of this disease require a lot in terms of days off work as well as expensive medication. The drugs are imported or made by local affiliates of multinational pharmaceutical companies who charge very expensively for these drugs. The Government, through, the Ministry of Health has to purchase these drugs and give them to State run hospitals free of charge or at subsidized rates. This leaves very little money in the national Treasury to spend on the other sectors of the economy. This has resulted to underdevelopment of the nation. The Government, therefore, has to come up with ways of dealing with this scourge. They include expensive educational campaigns throughout the country.
Insurers are faced with the responsibility of paying the medical bills incurred by those who take out a life insurance with them. In light of the prevailing threat posed by the Aids disease, these bills have continued to increase at an alarming rate. Insurers are now faced with the dilemma of tackling a new problem with meager resources, and their need for higher revenues.

Information gained through this research will enable the insurer to be in a position to observe and study the trend at which life claims have been changing over time. The insurer will be able to re-evaluate the company's past and present life assurance practices, to allow for future considerations and alterations. The research finding will enable the insurer to establish whether Aids is negatively impacting the life funds.

The other insurance companies will be able to use these results as a basis to compare and contrast their individual practices. This may enable them to either emulate or shun some similar practices. The insurance industry may use these results to encourage other life assurance companies to conduct similar researches so that a more individual picture can be shown of each company. This will help the industry to design requirements and proposals that will suit the industry for a long time to come. It may perhaps come up with a body to administer the special concerns of Aids sufferers who require life assurance covers. The insuring public will be able to make informed decisions.
Previous studies on Aids have been focusing on other areas such as national economy, health sector, and other institutions. This study is unique as it is a case that will focus on how Aids has affected the life assurance claims of a particular insurance company. This is so because this is an important functional area in organizational management today. Discussions, conclusions, and way forward for the company shall be given, after looking at how the life assurance claims have been impacted by the Aids scourge. Suggestions for future research shall be proffered.

The Aids scourge is posing a real problem to insurance firms. The problems include, the increasing rates of life assurance claims. The insurers have been depending on the young and productive age groups who were believed to be having their whole lives ahead of them. But, unfortunately this is the same group that has been greatly ravaged by this scourge. This has posed a threat of diminishing incomes as a result of the huge life assurance claims per annum. Also insurers have been refusing to offer life assurance covers without proposers being subjected to some of the measures insurers are taking to protect themselves against this risk.

In light of the foregoing national and industrial importance of the scourge, it is important to take a closer look at how each and every sector of the economy has been affected by the scourge. Unfortunately, in as much as the threat is there no empirical work has been done to explore how the Aids scourge is affecting the
life assurance claims in the insurance industry. The current study, therefore, seeks to investigate the impact of Aids on life assurance claims of one insurance company in Kenya.

**OBJECTIVES OF THE STUDY**

The objectives of the study are:

1. Find out how much of the total life business is paid out to Life claims.
2. Find out how much of the life claims is paid out to Aids related claims.
3. Find out the measures taken by the company to cope with changing life assurance claims.
DEFINITIONS

Aids: A wasting disease caused by the Human Immuno-deficiency Virus. It is often fatal.

Actuary: A mathematical expert who studies the insurance variables and calculates their premium rates.

Agent: This is a sales and service representative of the insurance Company who may also be referred to as a life underwriter.

Assured: A person who has taken out a life policy.

Bisexual: A person who is sexually attracted to members of both sexes.

Broker: This is an individual who arranges and services an insurance policy on behalf of the insurance company for a commission. He also represents the insured.

Cancellation clause: This is a provision that indicates the repudiation of a life insurance policy should the assured become infected with the HIV.
Claim: A demand for compensation.

Exclusion clause: This is a provision that indicates an outright elimination from the coverage of an insurance policy.

Haemophiliac: A person who suffers from an abnormal blood condition characterized by the difficulty of blood to clot.

HIV: The retrogressive virus which causes the Aids disease.

Homosexual: A person who is sexually attracted to members of his own sex.

Intravenous drug user: A person who injects hard drugs such as heroine into his veins using a hypodermic syringe for the purpose of getting a 'high'.

Life Assurance: Class of insurance that is concerned with human life.

Material fact: An existing condition or information about the assured which must be known by the insurer and whose concealment or distortion can lead to rejection or penalty of the contract.
Policy: A document which spells out the terms and requirements of an insurance contract.

Premium: Regular payment paid out for any insurance policy taken.

Risk: The possibility or threat of an insurance loss.
CHAPTER TWO

LITERATURE REVIEW

This chapter is divided into six major parts. The first part deals with the industry understanding of the terms "Aids" and "Life Assurance". These are definitions of the two terms as understood by life insurers. It also gives a basic relationship that exists between Aids and Life Assurance as well as their problems. The second part, gives an insight into how this scourge is understood in this countries. The third part shows how insurers underwrite the Aids risk. The fourth part outlines the clinical features of Aids, which insurers are on the look out for. The fifth and the sixth parts discuss the measures taken by insurers to guard themselves against loses occasioned by this scourge and the strategies adopted by insurers when underwriting this risk.

INDUSTRY UNDERSTANDING OF AIDS AND LIFE ASSURANCE

Aids (Acquired Immune Deficiency Syndrome) has been defined as a pathological condition caused by a virus, the (Human Immunodeficiency Virus, HIV). This virus is lethal. It attacks T-4 lymphocytes which act as helpers inducing other T-cells called killers to fight invaders. The virus invades the entire human system that is the blood, lymph nodes, spleen and the brain. The
immune system deteriorates over a period of time. The person dies from opportunistic infections. (Johnson, 1990).

Geisler, (1996) describes Aids as a result of an infection with HIV. Infection with this virus brings about weakened resistance to agents unknown to the body's defense mechanism. An infection with agents unknown to the organism means that the organism infected with the virus, will find it extremely difficult to overcome these, which ultimately may be fatal.

Klouda & Gordon, (1989) assert that Aids is not one disease, but a set of diseases. Not all people who develop Aids suffer from the same diseases, but there are certain unusual illnesses that occur very frequently in Aids. That is why it is called a "Syndrome". This Syndrome is caused by a virus which affects the body's immune system, making it liable to infections and cancers to which it would normally be resistant.

According to Kalichman, (1997) Aids is Acquired because it is not inherited and it does not develop on its own. A person gets the virus that causes Aids so the cause of Aids is contracted from a source outside the body. Immune because it refers to the body's disease fighting system that HIV damages. Deficiency as it stands for the type of damage suffered by the body's immune system. The immune system becomes deficient as HIV destroys T-helper cells. Syndrome is
because Aids is actually a group of symptoms and illness, as opposed to a single disease. It is a complex combination of many infections and diseases.

It is also argued that (Kalichman, 1997) continues to add: The letters HIV stand for Human Immune Deficiency Virus. Human, because it only infects human beings. Immunedeficiency because it destroys the body’s immune system, which is responsible for protecting humans against disease. Virus because it shares biological characteristics with other viruses that are not common to living cells. He calls the HIV is a retrovirus because its life cycle is the reverse of other viruses. This makes it more complex than other viruses. It is a slow virus. Therefore, it progresses slowly to cause disease over a long period of time usually years before symptoms appear. It infects the immune system making the body defenseless against infections including the HIV itself.

Life Assurance has been defined as a means of creating an estate by allowing a person to save regularly. (AKI, 1998).

It has also been defined as a risk pooling plan, an economic device through which the risk of premature death is transferred from the individual, (Vaughan and Vaghan, 1995). They continue to add that life assurance has certain characteristics that make it unique from other types of insurance.

These include:-
The event insured against is a certainty as no one lives forever. It is only a matter of time before the event of death occurs. The eventuality of death is increased with every passing year.

In life assurance the loss of life through death is definite. The loss cannot be indemnified. It cannot be replaced. Life assurance can only help to alleviate the suffering of those who are left behind.

The principle of insurable interest is applied somewhat differently from other classes of insurance. These require that someone take insurance on something external of themselves such as a car. But in life assurance, the life assured can be of the proposer. The individual has an unlimited insurable interest on his or her own life. This insurable interest can be assigned to anyone. When someone wants to take out life assurance on someone else’s life, the law requires that they must have an insurable interest at the time the contract is taken out. Such situations exist between husband and wife, creditor and debtor, or parent and child.

Thus, it is the exception rather than the norm for an insurable interest to be required because the purchaser of the life assurance is the assured. But, an exception exists to this rule where spouses can insure each other without each others consent,(Vaughan and Vaughan, 1995).
There are various types of contracts offered under Life Assurance. They can all be classed in four broad categories, that is:- (Hansell, 1987).

a) Term (or temporary) assurances - These are the oldest form of policy, payment only being made by the assurer if the life assured dies within the specified period. It is suitable for businessmen on journeys, or as temporary cover to secure an outstanding debt (e.g, a mortgage loan), this is the cheapest form of life cover available. (Hansel, 1987).

b) Whole life assurances - These policies last for the whole of the assured life. The sum is payable at death only. Premiums may be payable throughout life or cease at a give age, say sixty-five. (Hansel, 1987).

c) Endowment assurances - This policy provides for the assured to be paid at death or after a fixed number of years whichever comes first. The assured selects the number of years when effecting the policy. (Hansel, 1987).

d) Annuities - These are a form of pension, whereby in return for a certain sum of money (paid in a lumpsum or in instalments) the assurer agrees to pay the annuitant an annual amount (an annuity) for a specified period or for the remainder of an annuitants life. (Hansel, 1987).
The Oxford Advanced Learners Dictionary defines assurance as: statement expressing certainty about something. (Hornby, 1992). This is not far from the objective of life assurance in the case of death which is certain but only the time of occurrence of the event (death) is uncertain.

Life assurance policies are frequently taken out to provide a form of security in a financial transaction. The inclusion of an exclusion clause (refer to section dealing with measures taken by insurers to protect themselves against this risk, in this paper) in the life policy would cause great dissatisfaction. This is especially so when one wants to take out an endowment mortgage against it. (Haigh-Harris, 1995).

The ignorance of customers who seek to buy the life policy makes them easy prey for cheating by the equally ill-equipped marketing channels.

The main channels for selling this policy include insurance agents, brokers and direct selling by insurance companies.

Problems of selling life assurance policies will include; difficulties in language as some have not been modified to suit the local language.

The other problems afflicting life assurance include long protracted court battles between insurance companies and the deceased's relatives, or cancellation of
policies before maturity on realization by the assured that the HIV may have infected them.

Pricing problems also persist in case of continuation of policy. Sometimes this leads to wholesale increment of all life premiums. Thus placing a greater burden on all assured.

Public relations are quite poor in the insurance industry. Kenyans and Africans in general do not view insurance, especially life, as a necessity. Therefore, there has been a deliberate and conscious effort to promote the need for insurance among Kenyans, not by deception but by a positive and honest presentation. (Mukhalu, 1982). This is especially in relation to factors that may affect adversely their life policies such as the life threatening ailments of Aids and Diabetes.

With the coming of Aids, the insurance industry was faced with unprecedented challenges. The greatest challenge is that it has affected the people in the age bracket that takes life insurance the most. Secondly, lack of a cure made the disease uninsurable thus every positively identified sufferer meant a loss of income to the insurance industry. Thirdly, the Aids causing virus lies silent and inactive in the human body for a long time and can easily escape detection. This has created a difficult situation for this industry as well as individual companies who have different modes of operation when it comes to administration of life policies.
AIDS AND LIFE ASSURANCE IN KENYA, GREAT BRITAIN, AND GERMANY

Aids and Life Assurance fall under Health Insurance. The Aids scourge is causing a lot of fear in every sector of our everyday life be it political, economic, social and the insurance industry has not been spared.

Life underwrites are being constantly challenged to either cancel or include Exclusion clauses when underwriting life policies.

It would be important to understand how the life insurance industry works. Whatever has been said, the insurers aim to safeguard the interest of policyholders and to a smaller extent, the shareholder. There is still a lot of embarrassment and shame associated with Aids for both sufferers and death resulting from it. Relatives may be subjected to a lot of social stigma.

Life usurers will continue to face a lot of difficulty deciding whether to pay a death claim resulting from Aids.

The battle will continue whether to incorporate exclusion as well as cancellation clauses. Payment delays will arise as a result of insurers being unable to positively deny or confirm Aids related deaths. Potential proposers may also be uncomfortable to take an Aids test. This may lead to them losing out on death insurance, or lead to protracted court battles.
Insurers continue to incur loses when trying to establish if death was Aids related before paying out on death claims. This is because they need to employ investigators who need considerable resources to find proof of the actual cause of death.

There are increasing numbers of insurance claims fraud that are leading to huge loses in the insurance industry. There is also the increasing incidence of Aids and Aids related claims in the Life Assurance industry in Kenya. (AKI, 1998). Proposers are taking out hefty life policies in the hope that upon maturity of the insurance period or upon death (due to Aids) their dependents are going to benefit heavily. Aids related illnesses and death are eating into the life funds held by life assurance companies.

Before 1982, Aids was relatively unknown in Britain (Fitzsimons et al, 1995). But by mid 1980s the scourge impacted greatly on that society and the insurance industry grew considerably alarmed. This disease appeared to be affecting the younger population that was considered to be a good insurance risk. Free treatment under the National Health Service (NHS) made the insurance -medical expenses relationship a small issue. This is more so in relation to social insurance as opposed to private insurance.

Fitzsimons and colleagues continue to argue that in Britain, Aids has been largely associated with certain sections of the population such as homosexuals.
Insurance underwriting will use broad classifications of these sections of population.

Thus initially, the British insurance industry reacted by increasing premiums by 150 percent for single males. AIDS exclusion clauses were introduced in medical expenses as well as permanent health policies.

These insurers started requesting and have been requesting since then that life assurance proposers take an HIV antibody test. Questions as to whether the proposers have taken an AIDS test or counselling about AIDS are incorporated into the proposal forms. A supplementary questionnaire was also introduced to identify whether a proposer belongs to any of the sections of population considered to be high-risk groups such as homosexual men, bisexual men, intravenous drug users, haemophiliacs, and sexual partners of the above.

The proposers' General Practitioners were also asked the same questions so as to prove the information provided by the proposers, or for any other information considered important for the insurer to know.

Positive HIV tests, previous though negative HIV test for proposers and those in high risk groups resulted in automatic rejection of cover and "special" treatment of proposal respectively.
In France insurers ask about previous HIV tests only to ascertain if the proposer has tested positive. French insurers do not ask why the previous test was taken and regarded the suggestions that taking a test may indicate a "high risk" lifestyle as an extraordinary concept. The French government and the four main insurance associations prohibits signatories from asking questions of a sexually intimate nature concerning, and in particular, concerning sexual orientation. A committee was formed to monitor compliance with the agreement. (Fitzsimon et al, 1995)

In Germany, the Association of life insurers recommends that its members ask about HIV tests only when it is established that the proposer is HIV positive or has AIDS. But, in the Netherlands, seeking information about previous tests or the proposer's sexuality is not permitted. (Fitzsimons et al, 1995).

It will be important to understand the nature of the AIDS risk as it relates to life insurance. It is complex and little understood even by the insuring public. The insurers should be able to collect premiums, which will enable them to settle future liabilities as well as make a profit. The Insurance Act requires that the life fund be held in trust of the benefit of the policyholders. Twenty percent of the surpluses of the life fund less all-future liabilities and bonuses may be distributed to shareholders. This separation of policyholders' funds and shareholders' funds are unique compared to other industries. Thus, proper administration of the policy is required so that premiums can meet future obligations. Any
assumptions on the policy that turn out to be incorrect, such as posed by Aids, will affect the profitability and workability of the policy. The Insurance policy greatly depends on mathematical precision so that when properly administered there is almost no mortality risk to the insurer and will ensure that every claimant will receive, without fail, compensation against the insured event. (AKI, 1998).

The scourge has impacted negatively on other major business sectors of the Nation. This will lead to lowered business productivity as well as increased poverty levels. All the three levels of production will be negatively affected. The agricultural sector will experience lowered output as well as the manufacturing and commercial sectors. It is projected that one in every four workers in Nairobi bill be infected this year (2000).

Financial analysis of several Kenyan firms shows an increase in labour costs through absenteeism, labour, turnover, healthcare costs, burial fees, recruitment costs and retraining costs. By the year 2005, these costs may increase by 4 percent.

A typical Company would be estimated to incur a cost of Ksh 4.3 million due to HIV infection of its employees. The bulk of this figure will be for training new employees, absenteeism, and the cost of recruiting and training new employees. Highly labour-intensive Companies, those which employ highly skilled workers, or offer comprehensive benefits to employees will bear the brunt of the scourge.
Kenya's macroeconomic growth is affected and will continue to be affected in the future. Econometric simulations have indicated that higher expenditures on healthcare are already forcing families and the nation as a whole to reduce non-medical consumption and investment.

By the year 2005, the total cost of AIDS is expected to reach Ksh 118 trillion. Gradually, the Gross Domestic Product will continue to decline. Per capita income will be lowered by 10 per cent. This will lead to the national economy losing valuable members as well as depletion of resources available to the survivors.

UNDERWRITING THE AIDS RISK

From the time the Aids disease was identified in life assurance as a major risk factor, the life underwriters have sought to identify and isolate the proposers who are carriers of the HIV and sufferers of Aids. This has given rise to identification of four major groups of individuals at high risk. These groups include:

Homosexuals and Bisexuals - These groups pose the highest risk. These are persons whose sexual contacts have been exclusively homosexual. The first cases of Aids were detected, in the late 1970's in predominantly the homosexual group.
It is generally assumed that a strong correlation exists between sexually transmitted disease and HIV infection. Underwriters must be extremely cautious when dealing with applications from these groups of lives. Incidence of sexually transmitted diseases such as gonorrhea or syphilis and particularly Hepatitis B, are much greater in homosexual and bi-sexual males. This seems to indicate greater promiscuity in these groups. (C11, 1991).

However, these particular groups are not a major force to reckon with in Kenya since the society's greatly forbids "abnormal" sexual behaviour. If such groups exist, they are still a small minority who has not yet come out to declare so openly.

**Intravenous drug users** - These people "push-hard-drugs" such as heroine and cocaine using a hypodermic syringe. The syringe needles are hardly sterilized properly. This makes them a rich source of infections transmission especially when shared. These people are likely not to bother about life insurance. But, when they are rehabilitated and reformed, they may apply for life cover. Thus, underwriters should be very careful when considering such risks.

**Haemophiliacs** suffer from Haemophilia. This is a disease, which causes the blood not to clot. (Cunningham, 1977). It is a coagulation disorder of the blood. If a haemophiliac has an accident and gets a major cut, he/she may lose too much blood and may require more blood through blood transfusions. A haemophiliac
May need several blood transfusions in their lifetime. This increases their chances of infection with the Aids causing virus. Thus, insurers have to cautious when giving them life covers.

Between 1981 and 1985, a percentage of haemophiliacs who received treatment with anti-haemophilic globulin (which is manufactured from blood) in the United Kingdom, became HIV positive. The problem has now been resolved via testing and the treatment of blood offered for transfusion (C.I.I, 1991)

Sexual partners of both hetero and homosexuals are likely to transmit the HIV. Anybody sexually and intimately linked to the above three groups is more likely to contract the HIV. Trauma as a result of anal intercourse exposes one to greater risk of contracting the HIV infection than vaginal intercourse.

Prostitutes - These are individuals (male or female) who engage in commercial sex. The fact that they have multiple sex partners exposes them to greater risk of HIV infection. Prostitutes may also be hard drug, such as heroine, users. They may also be intravenous drug users, or associate with intravenous drug users. They have large numbers of sexual partners, which increases the likelihood of contracting other sexually transmitted diseases. This behaviour also exposes them to a greater risk of contracting the HIV. Hard drugs are very expensive. Therefore, young men and women engage in illicit sex to raise money to purchase these drugs. This results in high levels of Aids infection
among prostitute and hard-drug users. Some studies have been done on the prostitutes who reside in the Majengo slums of Nairobi. These studies have revealed some, astonishing results. That some prostitutes bodies have resisted infection by HIV.

An HIV positive pregnant woman is likely to pass on the disease to her unborn child in the uterus, during delivery, or to a small extent through her breast milk. In Kenya, an estimated ninety percent of children aged below 15 are HIV positive and they acquired this Virus from their mothers. The Ministry of Health reports a thirty percent increases in children's death to Aids. This is a grim picture relative to the estimated two million Kenyans living with HIV/Aids, 100,000 of these children are aged below 5 years. The Population Councils Horizon program estimates that 20-30 out of every 100 pregnant women are living with HIV/Aids.

Insurers are wary of this ever-increasing number, as a fair percentage of them are their insureds. They will probably need expensive drugs, treatments, and therapies during confinement. Hospitals and doctors have no qualms about prescribing expensive procedures since they know insurers will pay. Efforts are underway, by insurers; to lessen the financial burden posed by these HIV positive pregnant women.

Long distance truck drivers are mostly of employees of companies and they are covered under the group life assurance (GPA) schemes. Since their
compensation falls under the free cover limit they are not subjected to the rigorous medical tests. Along the Mombasa-Nairobi-Kisumu-Busia highway, the incidence of Aids has increased manifold. This is believed to be as a result of the long distance travelling truck drivers who are on the road for many days or even weeks. During their stops at night they frequent their regular mistresses or prostitute’s dens - it is possible and likely that these stops are many and are frequented by different people. This increases the incidences of HIV infection among all their partners. It is important to note that most of these truck drivers are employees of companies that have taken out life assurance policies for them mainly under the group life schemes.

THE CLINICAL FEATURES OF AIDS

Infection with the HIV is not immediately manifested in the human body. The virus lies dormant in the body for a period of two to three months before antibodies to HIV appear in the blood. This event is known as sero-conversion and is marked by enlargement of the lymph glands, which may last for about two weeks. A patient will recover from this initial illness and remain completely well until some other manifestation of the disease, in most cases after some years. Some of the fully developed Aids symptoms will include:-

1. Infections either by viruses or bacteria also called opportunistic infections, which include *pneumocystis carinii* pneumonia and *cryptococcus*
neofromans meningitis, and tuberculosis. Also, encephalitis, retinitis, colitis, pneumonitis, herpes zoster and herpes simplex complications.

2. Malignant growths or skin tumours, cancer of the skin or kaposi sarcoma, and lymphomas also occur.

3. Dementia, or the degeneration of the cells in the cerebral cortex due to old age or disease resulting in memory loss, lack of concentration, and impaired judgement. The exact cause is as yet unknown.

4. Others include:- weightloss, persistent diarrhoea, high fevers, anorexia, skin rash, cough, and headache, which are all very difficult to treat.

These symptoms herald the onset of full-blown Aids. After the symptoms appear the patient may not live for more than two years. There is a decline in health coupled with lassitude, weight loss, itching white membrane appearing in the mouth and candidiasis. The shrinkage of the lymphadenopathy will signify the onset of Aids. However, except with anti-viral therapy, before these symptoms have occurred, death will result between 8 to 10 years on average. (A.C.I.I, 1991).
MEASURES TAKEN BY INSURERS TO GUARD AGAINST LIABILITY

1) **Is the Life Assurance necessary?**

This question is asked by every insurer when approached to provide a life cover. The insurance companies try to find out why the individual wants to take out a life assurance policy. Some of the reasons proffered are not particularly convincing. They include buying a house. Financial institutions such as banks approached for house loans may require one to have a life assurance cover. This is to protect himself or herself against any eventuality such as death of the loanee. They can be paid by the insurance company to offset outstanding debt. This is sometimes people want to give financial security to their dependants in case they die prematurely. Because of the intricacies and difficulty of securing a life policy, one would be well advised to take out a straight loan without involving insurance. This may turn out to be cheaper anyway. (Haigh - Harris, 1995).

2) **The applicants duty of full disclosure**

Insurance companies issues forms, which ask all manner of questions, considered necessary for life cover. However, at the end of this series of questions there is an allowance for the proposer to reveal any material facts that should be drawn to the attention of the insurer. Should an insurer find out the withholding of material facts, then the consequences are dire as the policy contract may be nullified and become void. Thus, the assureds' losses all the premiums that they had already paid. (Haigh-Harris, 1995).
3) Medical Tests

The presence of the HIV in the human body can only be positively identified by a laboratory test. This test shows the presence of viral antibodies. The onset of Aids can also be forecast by measuring the number of T4 (helper) lymphocytes present in the blood. Some of the tests include:

Antibody Tests

The presence of the HIV infection is detected by the presence of antibodies to HIV or the antigenic material, which it contains. This is done by the Elisa (enzyme-linked immuno-sorbent assay) and the Western Blot tests.

The Elisa Test: is a blood test that detects the presence of the HIV antibodies in the human blood. The presence of these antibodies will produce a colour change in the chemical reagents used for the test. This test would produce best results several weeks after infection when the body will have started producing antibodies. A repeatedly positive test would herald the use of a more precisely accurate test, the Western Blot.

The Western Blot Test: detects viral proteins when placed on a special kind of blotting paper. A specific pattern appears on the paper if antibodies for the HIV are present. To be completely sure about the results, a repeat test is required in 3-6 months. (Urban, 1989).
New methods of antibody detection are under trial and they include the Dry Blood Spot Test, Saliva test, and Urine Test.

These tests however can only be effective and conclusive after the sero-conversion that means between two to three months after infection. This would mean that insurers would require repeated tests either annually or regularly.

HIV or Antigenic components detection tests
Though expensive, it is a more reliable test than the first one. It seeks to establish presence of the virus or its antigenic components in the blood before sero-conversion. It identifies the presence of HIV material in the nuclei of the cells it has invaded.

HIV progression tests
These tests determine the speed or progression of the infection by studying the amount of viral antigen or the absolute number of T4 helper lymphocytes present in the blood or the ratio of these cells either to the number of T8 suppressor cells, or to the total lymphocyte count. If lymphocytes are in excess of 500 per cu. Cm then good health is present. If the count falls below 200 per cu. Cm, it signifies the onset of Aids in the near future.

Therefore, the life underwriter needs such information to be able to provide healthy but HIV positive individuals with short-term life policies on special terms, or deny cover in extreme cases.
4) Medical History

This gives a history of all the medical and health status of the proposer. The insurer will use this information to determine the amount of premium to charge. It may also be a basis for the insurer to accept or reject to insure. Proposals are rejected if the applicant is considered too risky.

5) Exclusion Clauses

The clauses seek to exempt the insurer from liability. This clause implies that one is on cover provided they are without the disease. But, once an insured contracts the disease, they are taken off cover or an exemption is provided within the scope of the insurance cover.

The negative impact of the scourge is worsening poverty and income distribution by leaving children orphaned. Assets are sold to meet the cost of regular medical care and funerals and to meet other daily needs. Little else is left for non-medical expenditure. The individuals and their families and then firms/businesses and the macro-economy first feel the impact of the disease. The individual feels the impact especially on healthcare and insurance.

6) Cancellation clause

This is a provision within the life assurance policy that indicates the annulment of the policy should certain material facts happen to the assured. In this case,
lifethreatening conditions that have no permanent treatment or cure are affected by this clause.

7) Removal of Premium rates and Convertibility options

These offer additional protection to all those who have taken out a life assurance policy. They allow for the assured to convert or extent life cover without necessary waiting for the expiry time. No medical evidence is required of insurability of the assured. However, increasingly many insurance companies do not allow for this practice, as it is possible for one to contract the Aids causing virus in the period between the initial policy and the exercise of the option the assured may have taken.

8) Selling or surrendering of life policy

A life assurance policy may be taken out as an investment. It is an asset to have. In the developed world, life policies can be sold or bought. This is possible if a life assurance policy-holder can no longer afford the premium payments as a result of loss of employment, increasing debts or critical illness. These life policies sold through auctioneers or dealers. There are conditioners which surround a policy bought through auctions. They include a set period of existence. There are also dealers who will buy the life assurance for resale or act as agent for the policy -holder in finding a buyer. This service is favoured by people who have medical evidence that their lives are impaired, have a fatal illness, or that their life expectancy is limited. Thus, these "secondhand" policies
are purchased as investments, (Roth and Gryk, 1995). When surrendering a life
policy, a policyholder is expected to cash it in with the insurer. The insurer pays
a lump sum amount known as “the surrender value”.

The stakeholders in this industry would also be encouraged to offer their support
to the industry practices. Doctors would be encouraged to give the exact nature
of their patients’ state of health. They should also be encouraged to indicate the
exact cause of death either on the death certificate or avail this information
separately and in confidence to the insurers.

Lawyers would be encouraged to interpret correctly the requirements of policies
to their clients. Legal representation can also be availed to parties that have a
dispute.

In Kenya, the legal system has been slow to respond to the epidemic with only
one law passed in 1987 - Its inclusion as a reportable disease. Workers rights
have little protection. Most Companies will require pre-employment Aids
screening. Workers are not given pre or posttest counseling and their consent is
not even sought. This takes away the workers rights to privacy, confidentiality
and limits their rights to work. (Forsythe & Rau, 1996)

In India, lawyers provide legal support, advocate for changes in the law to
address factors that contribute to Aids vulnerability such as gender inequality.
Legislation can also reduce the impact of Aids epidemic on families and individuals by protecting the right to employment, healthcare, and housing. It can also ensure that young people have access to information about sexual health, condoms, and to reproductive health services. It can also encourage people to seek Aids testing and counseling, and increase the likelihood that those with Aids will practice safe sex by protecting confidentiality. This will go a long way in curbing the spread and also reaching the most vulnerable and marginalised persons.

The government would be required to work with the insurance industry, to work out modalities of dealing with this scourge of Aids. Modalities aimed at helping those infected and affected by the Aids scourge would be worked out. This will also go towards helping Aids orphans and other dependants of those insurance companies may refuse to pay because they died of Aids.

A cure for Aids has still not been found, as of 1999. However, many studies and researches are still being carried out so as to provide a cure for Aids. The Kenya government in conjunction with the United States of America government, through USAID Aids Program co-operated to help fight Aids in which the latter government gave $10.2 Million in January 2000.
The medical profession acknowledges that there is no cure for Aids yet. There has, however, been progress made in drugs that offer relief from the opportunistic infections and those which prolong a victim's life.

The opportunistic infections are treated depending on the pathological agent responsible for causing the infection. Administration of drugs can temporarily halt opportunistic viral infections, especially with the cytomegalovirus, by use of Gancyclovir, (a drug).

*Pneumocystic carinii pneumoni*, which is very frequent in patients, can be contained by the administration of a combination of either dapsone or trimethoprim or of clindamycin and primaquine.

For a long time the drug Retrovir - AZT was used. But it was in such large doses, which produced devastating life effects. They started using it on patients in their last stages of the disease. Later, they started using smaller doses of the same and it proved just as effective. It helps in delaying the advent of Aids. Combined with interferon-a, it causes the lesions of Kaposi Sarcoma to regress temporarily.

Also, administration of serum from a healthy Aids sufferer with a high antibody level to seriously ill Aids patients whose antibodies have fallen and whose viral antigen in the blood has risen is being used.
This causes the number of helper cells to increase, and antigen level in the blood to fall and leads to an improvement in symptoms.

Insurers especially of those covered under group life assurance schemes to a great extent shoulder the prohibitive and exorbitant costs of these treatments and therapies.

The progress on Aids treatment is important for a life underwriter. Life prolonging drugs and therapies are going to make ethical dilemmas on companies that require people to take Aids test minimal. (A.C.I.I, 1991).

**UNDERWRITING STRATEGY**

Life underwriters have been trying to come up with a way to identify those who are infected, are likely to be infected, as well as those who are already suffering from the outward manifestation of the disease. Underwriters still rely greatly on medical history to determine this. But, because of the extremely volatile nature of the spread of this disease, medical history has proved an ineffective method of safeguarding against huge claims.

Application forms have been revised and amended so that they elicit significant information regarding possible Aids exposure.
Thus, such queries as "Have you received medical advice, treatment or had a blood test in connection with Aids or an Aids related condition?" are asked.

Though it is a direct question but the proposer gets the feeling that the insurer is interested in his/her life and so he/she is prompted to give a genuine answer. The marital status of one is also inquired as single men are felt to be of higher risk. Underwriters also ask to find out if one has a life cover running currently, if they have ever been rejected as life policy proposers and if so why they think they were rejected. This was to curb double insurance and check fraud.

Private doctors are also asked to give medical, intimate, private details of their patients. They may be asked if they are aware of factors which places their patients at risk of HIV infection or any other sexually transmitted disease and to give details including the results of any tests done. Doctors are asked to query their patients of any (HIV) blood tests done, any drugs that have been taken (prescription or otherwise), any diseases suffered in the past, and past and current sexual practices.

The most controversial aspect of Aids underwriting process is the lifestyle questionnaire, which is meant to protect the underwriter against non-disclosure of a material fact. It is normally separate from the application form. It mainly asks for information regarding to whether the applicant belongs to a high-risk group, and whether they have ever had an HIV test or suffered any of the symptoms
associated with Aids. This form is meant to be filled in private and is normally sent by post to the medical officer. There are two main groups who are required to fill in the form. Those considered being in the high-risk group and those in whom the suspicious features seemed to exist.

But lifestyle questionnaire still remains an uncomfortable experience for applicants. It is constantly reviewed and appraised to come up with the most effective way of asking these intimate details of people's lives.

High risk groups include those who the underwriter feels are in an increased risk due to combination of factors such as age, sex, occupation, residence, marital status, or who have a history of sexually transmitted diseases. The second group however, has no known adverse circumstances. However, markets rates to be charged are not known because of the flexible nature of insurance covers from one person or company to the next.

The HIV testing for applicants of life assurance also means that the insurer has to look for a well qualified and technically equipped doctor. The doctor is supposed to give the Pre as well as Posttests counseling. A good laboratory is also needed. All these translate to an added cost for the insurance company because all the expenses incurred have to be paid for by company.
Exclusion clauses are also tools used in life underwriting. Life assurance contracts, however, prefer not use them because an exclusion clause goes against the principle of the life contract. In case of death, proof of an Aids related death would be extremely difficult to confirm, unless the doctor who last attended to the deceased is ready to reveal the exact cause of death. Exclusion clauses also weaken the relationship between doctors and insurers. An exclusion clause is simply a condition stating that if the applicant dies of Aids while still on cover, no benefit will be paid to the assured's dependants. Exclusion clause will make premium amounts payable to be lowered. For non-exclusion covers, premium payable is higher reflecting the greater extent of cover. Exclusion clauses can be arranged on positive HIV antibody test at the time of the claim.

Many companies will not give life cover once an applicant HIV status is positive but will instead out rightly reject the application. But, others will give an exclusion once the applicant HIV antibody status is positive.
CHAPTER THREE

RESEARCH METHODOLOGY

THE CASE

This is a case study of one insurance company. The name of the company has been left anonymous for confidentiality and security reasons for both the company and its insured persons.

The researcher has chosen to do a case and not a survey because of the similarities in practice between different insurance companies. Thus, the results of a case would be helpful to the insurance company in particular and the insurance industry in general. The case will be able to deal with the subtleties and finer details of the situation. It looks at all the factors surrounding the case. The researcher is free to investigate the problem as it is without encountering pressures to impose controls or change the facts surrounding the case. Since the case is of a small-scale nature, the researcher will work from only one site, which is suitable for a case study approach.

A survey would overlook some of the small details such as actual money figures for each year and may have instead taken rounded or averaged figures. A
survey would get a wide variety of data, which might overlook the data that is relevant to the research objectives. This will make the significance of the data disappear. Data collected through a survey may lack detail and depth on the topic being investigated thus hindering the achievement of accurate results. This will distort the true picture for companies wishing to measure themselves against these findings.

This particular company was chosen because it is the best and most representative of all the companies available. Some of the reasons being, it is centrally located in town, has the largest variety of life insurance and has been in operation longer than most of its counterparts.

The method of data collection is through conducting a desk research. The researcher was to go through the company records that contain the relevant information. The data collected is of secondary nature. The data on Annual Premium received is to be obtained from the company's Books of Accounts while information about the annual claim payouts and annual Aids related claim payout shall be from the Company's Claims Registers.

The data on annual premiums received, annual life assurance claim payout, annual Aids related claim payout, and annual measures taken to guard against loses through the Aids Scourge were collected for the ten year period. This is from 1989 to 1998.
A data collection form (see appendix 1) was used to help the researcher collect the data. This form is mainly divided into two broad parts. Section A and Section B. Section A is divided into three parts. The first part will collect data on the Premium amount in Ksh., the second part will collect data on the Annual life claim payout in Ksh., and the third part will collect data on the total amount of money paid out to Aids related claims in Kshs. annually. Section B will collect data on the measures taken by the company over the period under study.
CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

This chapter gives an overview of the analyses and findings of the research. In this chapter, the data collected for the study, the analyses and findings are shown. Three kinds of data are collected as shown in Table 1. The order of presentation is in terms of the research objectives addressed in the study.

FINDINGS OF PREMIUMS, LIFE CLAIMS, AND AIDS RELATED CLAIMS

Table 1: Table showing the findings of premium, life claims, and Aids related Claims from 1989 to 1998.

<table>
<thead>
<tr>
<th>Year</th>
<th>Premium</th>
<th>Life Claims</th>
<th>Aids related claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>98,843,919</td>
<td>11,568,374</td>
<td>564,269</td>
</tr>
<tr>
<td>1990</td>
<td>112,118,885</td>
<td>13,740,022</td>
<td>766,642</td>
</tr>
<tr>
<td>1991</td>
<td>114,180,551</td>
<td>14,52,223</td>
<td>859,721</td>
</tr>
<tr>
<td>1992</td>
<td>139,392,697</td>
<td>18,821,948</td>
<td>1,495,166</td>
</tr>
<tr>
<td>1993</td>
<td>153,178,788</td>
<td>21,388,578</td>
<td>2,051,359</td>
</tr>
<tr>
<td>1994</td>
<td>184,552,757</td>
<td>23,248,454</td>
<td>2,706,056</td>
</tr>
<tr>
<td>1995</td>
<td>114,939,000</td>
<td>16,626,000</td>
<td>1,996,352</td>
</tr>
<tr>
<td>1996</td>
<td>234,201,000</td>
<td>35,979,000</td>
<td>5,342,753</td>
</tr>
<tr>
<td>1997</td>
<td>308,537,000</td>
<td>56,830,000</td>
<td>8,803,340</td>
</tr>
<tr>
<td>1998</td>
<td>311,848,000</td>
<td>97,006,000</td>
<td>17,623,359</td>
</tr>
</tbody>
</table>
Table 1 shows how the premiums received by the company have been changing over the years. From the findings, there has been a progressive annual increase of all the variables under study. This may indicate the increasing cost/value of life assurance as well as an increase in the volume of the people taking out life assurance.

**FINDINGS OF THE LIFE CLAIMS AND PREMIUMS RECEIVED**

Table 2: Table showing the proportion of money paid out to life claims to that of the premium received from 1989 to 1998.

<table>
<thead>
<tr>
<th>Year</th>
<th>Premiums</th>
<th>Life Claims</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>98,843,919</td>
<td>11,568,374</td>
<td>11.70</td>
</tr>
<tr>
<td>1990</td>
<td>112,118,885</td>
<td>13,740,022</td>
<td>12.25</td>
</tr>
<tr>
<td>1991</td>
<td>114,180,551</td>
<td>14,152,223</td>
<td>12.40</td>
</tr>
<tr>
<td>1992</td>
<td>139,392,697</td>
<td>18,821,948</td>
<td>13.50</td>
</tr>
<tr>
<td>1993</td>
<td>153,178,788</td>
<td>21,388,578</td>
<td>13.96</td>
</tr>
<tr>
<td>1994</td>
<td>164,552,757</td>
<td>23,248,454</td>
<td>12.60</td>
</tr>
<tr>
<td>1995</td>
<td>114,939,000</td>
<td>16,626,000</td>
<td>14.47</td>
</tr>
<tr>
<td>1996</td>
<td>234,201,000</td>
<td>35,979,000</td>
<td>15.36</td>
</tr>
<tr>
<td>1997</td>
<td>308,537,000</td>
<td>56,830,000</td>
<td>18.42</td>
</tr>
<tr>
<td>1998</td>
<td>311,848,000</td>
<td>97,006,000</td>
<td>31.11</td>
</tr>
</tbody>
</table>
The objective addressed in this part sought to determine how much of the total life business or premiums was paid out to the life claims. The data and analyses are provided in Table 2 above. The information contained in Table 2 has also been shown in Figure A below.

The Table shows the annual claim payouts to life assurance for the period under study. It also shows an increasing trend to the amounts of money paid by the insurance company to all the life claims. This may mean that claims are increasing as a result of many more people taking out life assurances. It may also mean that the cost/value of insurance is going up. The implication to the insurance company would be increasing financial burden as money is drained out of the company through paying for these claims.
FIGURE A: Graph showing the proportion of money paid out to the life claims to that of the premium received from 1989 to 1998.
Figure A is trying to answer the question how much of the total life business is paid out to life assurance claims? The relationship between these two variables is given in proportion terms. The graph shows a gradually increasing relationship. Every year the proportion paid out is seen to be slightly higher than the preceding year. A slight change to this rule occurred in 1994 where the trend was reversed but it quickly reverted to the previous increasing behaviour. However, in 1998, there appeared a radical change with the proportion shooting from 18.42% to 31.11%. Something must have caused this change.
LIFE CLAIMS AND AIDS RELATED CLAIMS

Table 3: Table showing the proportion of money paid out to aids related claims to that of the total life claims from 1989 to 1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Life Claims</th>
<th>Aids related Claims</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>11,568,374</td>
<td>564,269</td>
<td>4.88</td>
</tr>
<tr>
<td>1990</td>
<td>13,740,022</td>
<td>766,642</td>
<td>5.58</td>
</tr>
<tr>
<td>1991</td>
<td>14,452,223</td>
<td>659,721</td>
<td>6.07</td>
</tr>
<tr>
<td>1992</td>
<td>18,821,948</td>
<td>1,495,166</td>
<td>7.94</td>
</tr>
<tr>
<td>1993</td>
<td>21,388,578</td>
<td>2,051,359</td>
<td>9.59</td>
</tr>
<tr>
<td>1994</td>
<td>23,248,454</td>
<td>2,706,056</td>
<td>11.64</td>
</tr>
<tr>
<td>1995</td>
<td>16,626,000</td>
<td>1,996,352</td>
<td>12.01</td>
</tr>
<tr>
<td>1996</td>
<td>35,979,000</td>
<td>5,342,753</td>
<td>14.85</td>
</tr>
<tr>
<td>1997</td>
<td>56,830,000</td>
<td>8,803,340</td>
<td>15.49</td>
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<tr>
<td>1998</td>
<td>97,006,000</td>
<td>17,623,359</td>
<td>18.17</td>
</tr>
</tbody>
</table>

The objective addressed in this part sought to determine how much of the total life claims was paid out to Aids related claims. The data and analyses are provided in Table 3 above. The information contained in Table 3 has also been shown in Figure B below. Table 3 shows the amount of money the insurance company has been paying out over the years under study for Aids related claims. There has been a gradual but steady increase of Aids related claims. It has been increasing from Ksh. 564,269 in 1989 to Ksh. 17,623,359 in 1998. This could be as a result of the laxity of the measures undertaken to protect themselves against Aids related claims.
FIGURE B: Graph showing the proportion of money paid out to the AIDS related claims to the total life claims from 1989 to 1998.
Figure B is showing very much the same trend as figure A. The relationship between the two variables has also been an increasing one. The only difference to the increasing trend happened in 1995, though it was slight. The increase however, was greatest in 1998.

**PROTECTIVE MEASURES ADOPTED BY THE COMPANY**

Table 4: Table showing the measures taken by the insurance company to protect itself against Aids related Claims.

<table>
<thead>
<tr>
<th>Year</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>Blood tests, medical history, and proposal forms.</td>
</tr>
<tr>
<td>1990</td>
<td>Blood tests, medical history, General Practitioners reports, and proposal forms.</td>
</tr>
<tr>
<td>1991</td>
<td>Blood tests, medical history, General Practitioners reports and proposal forms.</td>
</tr>
<tr>
<td>1992</td>
<td>Blood tests (antigenic components and HIV progression tests), General Practitioners reports, and proposal forms.</td>
</tr>
<tr>
<td>1993</td>
<td>Lifestyle questionnaire, the General Practitioners reports, and blood tests.</td>
</tr>
<tr>
<td>1994</td>
<td>Lifestyle questionnaire, the General Practitioners reports, blood tests, and exclusion clauses.</td>
</tr>
<tr>
<td>1995</td>
<td>Medical history, lifestyle questionnaire, General Practitioners report, blood tests, exclusion and cancellation clauses.</td>
</tr>
<tr>
<td>1996</td>
<td>Medical history, lifestyle questionnaire, General Practitioners report, blood tests, exclusion and cancellation clauses.</td>
</tr>
<tr>
<td>1997</td>
<td>Medical history, lifestyle questionnaire General Practitioners report, blood tests, exclusion and cancellation clauses.</td>
</tr>
<tr>
<td>1998</td>
<td>Medical history, regular medical tests, lifestyle questionnaire, General Practitioners report, exclusion and cancellation clauses.</td>
</tr>
</tbody>
</table>
NOTE: The blood tests have over the years been changing from HIV antibody detection tests to more complex but refined detectors of blood and HIV proteins to give it higher accuracy levels.

This part addresses the third objective of the study which sought to look at the methods the company has adopted to protect itself against Aids.

Table 4 shows the measures the insurance company has been taking over the years. How these measures have been combined to produce the best possible results in protecting the insurance company from losing heavily to the scourge. The increase could be as a result of the difficulty associated with ascertaining that a death was as a result of Aids. It also calls for the use of better and more foolproof combination of measures.

It is important however for the insurance company to use both the exclusion as well as the cancellation clause to provide continuity as well as protection against the judiciary system in case of a legal complication arising. The two clauses complement each other as to increase their efficiency especially where there is a possibility of dispute from the proposer or the deceased dependants. Exclusion clauses call for underwriters to deny cover to anybody found to be HIV positive, thus there is no need for HIV antibody screening. However, for the effectiveness of HIV exclusion clauses to be realized well trained claims personnel will be required. Thus, to protect it life funds from depletion due to Aids related claims, a contestable period may be introduced to guard against insuring a possible bad risk.
CHAPTER FIVE

SUMMARY, DISCUSSIONS AND CONCLUSIONS

This chapter provides a summary of the research results, discusses the results, and makes conclusions on the results. It attempts to relate the findings to the objectives of the study and the literature review. The recommendations, limitations and possible areas for future research are also proposed.

SUMMARY AND DISCUSSIONS

This case study tried to find out the impact of AIDS on life assurance claims of an insurance company based in Nairobi, Kenya. Variables used in the study were: the premium received annually for the period under study, the amount of money paid out annually to life assurance claims by this company, the amount of money paid out to AIDS related claims by this company. These were all found to be increasing throughout the years. The measures taken over the years under study by this insurance company, which were found to have been varying over the years. The period of study was ten years which was considered long enough to give a true picture of the problem under study.
The premium was studied to find out how much the company received annually. This is also an important basis of measure of why the other variables were behaving the way they were.

That is, either increasing or decreasing efficiency and effectiveness. Premium rates collection may determine the profitability of a company. It is obvious that this company has been enjoying an upward increase in the premium amounts that they have been receiving. This may suggest an increase in the premiums charged for life assurance policies or they may have taken more clients who in turn have brought in more money in terms of premiums. More people may be taking out life assurances as a result of increased awareness of the service and the need to acquire financial security both to themselves (when they are alive) and to their dependants (if they (insured's) die). Life assurance has also been increasingly used as a guarantee against mortgage loans and other financial investments. The premium has been increasing from Ksh. 98,843,919 in 1989 to Ksh. 311,848,000 in 1998.

The life assurance claim payouts was of interest because the research needed to find out exactly how much the insurance company pays out to all life claims. This was a more general outlook as this variable incorporated payouts to all other classes of life assurances such as general group life schemes, individual life schemes, whole life insurance, term life insurance, endowment insurance, and child protection policy. But, you find that the impact on some of these classes of life assurance is so negligible but it would still be important. Other aspects have
also impacted on life assurance but in this case the study is only interested in how the Aids scourge has impacted on all these classes of life assurance claims.

The life assurance claim payout was Ksh. 11,568,374 in 1989 and Ksh. 97,006,000 in 1998. Thus, the study found out that the money paid out to life claims was also increasing.

The Aids related claim payouts was also found to be increasing. This could be attributed to the fact that in the early stages, it was difficult to tell when a death was as a result of Aids. There is lack of total co-operation between doctors and the insurer. The measures put in place by the insurance company could be having some loopholes. Though they have been using more measures and a wider combination of these measures, the Aids related claim payouts have been increasing. This has shown the difficulty of containing this scourge in this insurance company. In 1989 the Aids related claim payout was Ksh 564,269 and by 1998, it was Ksh 17,623,359.

This shows the magnitude and speed of change of impact of the Aids scourge on life assurance claims.

This table shows the relation between the three variables under investigation namely the premium, the life claims and the Aids related claims. The premiums have been increasing since 1989 from Ksh. 98,843,919 to Ksh. 311,848,000 in
1998. Showing an increase of over 315%. The exception of 1995 could be due to measures taken that year.

The life claims have increased from Ksh. 11,568,374 in 1989 to Ksh. 97,006,000 in 1998 an increase of over Ksh. 85,000,000.

The Aids related claims have been increasing except in 1995 where this trend was broken. This could have been due to any number of reasons including less Aids related claims for that year. They have increased from Ksh. 564,269 in 1989 to Ksh. 17,623,359. This continues to confirm the increasing industry trends facing the same scourge.

Has shown an increase between the two from 11.70% to 31.11% an increase of about 19.4%. This may have been due to failure of the measures to protect life funds. It is possible that over the years, more people have taken life assurance policy. The exception again is 1995 where there was a reduction in the percentage of life claims to the premiums collected.

The ratio of life claims payout to that of Aids related claims payout is 20.5:1 in 1989 and 5.5:1 in 1998. This may be interpreted to mean that in 1989, for every one-shilling used in Aids claim, twenty shillings were used for the life claims. But in 1998, for every one-shilling used for Aids related claim 5.5 shillings are used
on life claims. This shows a reduction in the gap between expenditure on Aids related claims and life claims. The expenditure of these two variables is approaching parity so that there will not be much difference between the two. Perhaps this will give the insurer reason to either accept Aids as any other life risk or adopt drastic measures to combat the escalating amounts out to Aids related claims.

Figure A shows the time-frequency relationship for the life claims and the premiums received by this company for the period under study. There has been an increasing trend for both the premiums and the life claims from 1989 to 1998.

The proportions have been gradually increasing from 1989 - 1991. A slighter higher increase occurred in the next two years from 1991 – 1993. But, then in 1993, the trend started going downward with a dip in 1994, which could have been attributed to a less number of life claims reported that year. However, this trend was almost immediately reversed with life assurance claims increasing by 1.87% defeating the 1993 – 1994 decrease by 0.51%.

The steady increase continued over the next three years from 1995 to 1997 by 1.87%, 0.89% and 3.065 over the previous year respectively. The greatest leap occurred in 1989 where a 31.11% proportion of life claims over total premium received was incurred. This indicated a 12.69% increase over that incurred in 1997. This gradually increasing behaviour of the life claims over the premiums
could be attributed to several factors such as an increase in the volume of life assureds, an increase in the cost of Medical facilities or failure of the measures to sieve out bad life assurance risks.

Figure B illustrates more clearly the relationship of Aids related claims to the life assurance claims. Both variables have shown a gradually increasing trend.

The proportions have been increasing from 4.88% in 1989 to 18.17% in 1998 giving a range of 13.29% for the year period. The increase was gradual between 1989 and 1991, with less than a one-digit increase between the three years. From 1991 to 1994, the increase was more pronounced as the graph shows with the proportions jumping from 6.07% to 11.64% respectively.

However, a break in the pattern was observed in 1995 with only a difference of 0.36% between 1995 and 1994. This was not for long as in 1996 the trend continued showing its previous ascending behaviour up to 1998.

It is important to note that of money paid out to total life claims and money paid out to Aids related claims in 1989 were 20.5:1. By 1992, this ratio had gone down to 5.5:1. This shows that in 1989 the total life claims was using over twenty for every one used by Aids related claims. But, by 1998 total life claims was using slightly over five shillings for every one-shilling that Aids related claims was using.
This may be interpreted to mean that the cost of insuring Aids related claims is becoming almost par with life assurance claims. So, we may ask, is it possible that in future life assurance claims may be overcome by Aids related claims? If so, is the company going to change it's tradition measures towards this challenge, barring any cures being discovered?

Perhaps we can hope to see a stabilization or decline of this trend if the insurance company puts in place more stringent measures to help curb the continuing depletion of the Aids related claims on the life funds. This may also affect the premium or revenue received which has a subsequent impact on the profitability of the life assurance scheme run by the company.

Presentation of data by using the line graph was meant to provide a more powerful visual depiction of the development and progression of the total life claims as well as the Aids related claims for the period under study in sequence.

The line graph has allowed the researcher to clearly show the trends assumed by the data collected. The researcher has been able to show clearly a time sequence showing the changes, of the variables over the time period, and the frequency of change of the amount paid for the two variables. The researcher has enabled the reader to see the magnitude of variations as happens annually.
The third objective of this study tried to find out the measures taken by the company to cope with the changing life assurance claims. The research found out that the measures used have been changing over time. They have changed from the simple to the relatively complex.

Blood tests were initially simple procedures used to establish the presence of foreign antibodies. Initially there used to be many mistakes with diagnosis. But with time and the realization that the Aids antibody was escaping detection because of poor efficacy of the methods used, rigorous testing facilities were introduced.

The insurer has acquired his team-experienced doctors who prescribe nothing but the best test to minimize loses to the insurer. The blood tests are not only looking for HIV antibodies but are also looking for HIV antigenic components and HIV progression to see the level of quantities of HIV material contained in the blood. The blood counts serve as warning to the insurance company against giving cover to a proposer.

The insurer uses proposal forms to derive the exact definition of life cover desired by the proposer. It will act as a contract briefly outlining what is contained in the policy document. It can be tailor made to suit the proposer’s requirements. It indicates exactly what benefits are expected in cases of loss or disablement. The insurer has indicated exactly what he does not cover including
pre-existing physical or mental defects, pregnancy, self exposure to needless peril, death from drugs, suicide, war risks or any of the excluded activities listed in the proposal.

It seeks to find out the daily employment activities, the emoluments to be included, the health status, earning limit, previous or current life assurance, and the health status of the proposer.

Medical history is required to find out whether the proposer has suffered any sickness or disablement in the past. If they have a persistence or chronic illness such as asthma then what is the level of medication, or how well has this condition been managed. This helps the insurer to gauge the risk involved and to calculate the premium to be charged especially if the person is also in high exposure to the Aids causing virus.

The General Practitioners report is very important to the insurer. It serves to help determine whether the proposer is healthy or sick. The medication examination given by a general practitioner is mainly for confirmation purposes of what the proposer has already told the insurer. It helps to come up with the correct assessment of the risk before finalising the contract.
It is with the General Practitioners reports that doctors are asked to provide information relating to HIV infection such as that given by Johnson, 1990. These are:-

- Unexplained weightloss
- History of seemingly gastro intestinal problems
- History of bacteria, viral and fungal infection
- Unusual skin lesions
- Recent onset of depression
- Urinary abnormality on examination
- General appearance (lethargy, weak, looking old than age)
- Evasive attitude

A positive response to these questions may lead to a deferred, declined or termination of the proposal or life insurance cover. The insurer may also require an increased premium or impose special conditions such as exclusion and cancellation clauses.

The lifestyle questionnaire seeks to find out the likes and the dislikes of a proposer. The main reason for this is to find out the intimate personal details of the proposer such as sexual preferences and any odd habits by the proposer such as intravenous drug use. This will help to assess the proposer whether he is a high to low risk. This protects the insurer against covering possible HIV infected person.
Even with the development in these measures and their increased efficacy, the research still found out that the Aids related claims were still rising.

In 1989 they were using blood tests medical history and proposal forms as measures to guard against loss due to Aids. But in 1990 and 1991 they included the general practitioners reports to strengthen what they already had.

In 1992, the blood tests become more complicated as they were now looking for more than just HIV antibodies. They started looking out for antigenic components as well as levels or quantities of HIV protein material present in the blood. These helped detect more cases and the insurer was able to adjust premium and or cancel policies.

By 1993, the insurer saw the above measures were not enough and he sought to combine them with lifestyle questionnaire, which probes the private life of the proposer and allows the insurer to assess the level of risk involved.

The exclusion and cancellation clauses are used to either eliminate or nullify the policy once an undesirable material fact is discovered. The exclusion and cancellation clauses were incorporated in the measures in 1994 and 1995 respectively. These were to act as protectors of the insurer against liability arising from undesired events such as infection with the HIV. The combination of
the blood tests, (both antigenic and HIV progression tests), the medical history, and general practitioners reports, proposal forms and lifestyle questionnaires, medical history, exclusion and cancellation clauses has persisted to date.

But, this has not stopped the upward trend of both life and Aids related claims payments. This shows that the measures are not foolproof. That it is possible for more to be done to improve the situation. Perhaps insurance can be persuaded to think of insuring the HIV infected proposer to increase their revenue in premium terms as has happened in France (Roth and Gryk, 1995).

The measures employed by the insurance company have shown changes over the years. The company has been varying the measures employed over the years to protect itself against the ever-increasing amounts of money paid out to Aids related claims. This may be attributed to the ever-changing nature of the disease. The virus that causes the disease has been changing and some of these measures' of efficiency are overtaken by the disease's ever changing nature. Also, the reluctance of some medical practitioners to administer some of the requirements of the measures on their patients is a probable reason why the company has been varying its measures. This is because the doctor-patient relationship calls for confidentiality on the part of the doctor. But, the insurance company calls upon the co-operation of the doctor. Patients have also been known to give false information and even asking other healthy people to take medical tests on their behalf.
By the time this is discovered, an Aids related claim may already have been paid out and it is too late for the insurance company to recover their money. Further investigations can be done on the optimal measures that the insurance company can take to protect itself against loosing out on Aids related claims through ineffective measures.

These medical tests are necessary when a proposer wishes to take a life insurance cover above a certain limit, or if the insurer suspects the proposer to belong to a high-risk group. However, these measures impose an additional cost to the insurer, as it is the one that pays for all these costs. Like any other life threatening conditions. Infection with HIV is a serious medical condition that needs to be investigated.

**CONCLUSIONS**

In conclusion, the research has shown that throughout the ten years, the amounts off the three variables under study have been increasing. This could be attributed to obvious difficulties in ascertaining deaths, which are as a result of the Aids scourge. This status could have arisen as a result of lack of co-operation between insurers and the medical profession. Death may also have been due to a variety of reasons such as a heart attack. It may not be easy to establish the exact cause of death, though Aids may have played a great part in the death.
All the measures taken by the insurance company have not stabilized the impact of Aids on life assurance claims. This calls for an investigation into the abilities of these measures as well as supplementing them with other options. Remember for ever proposal rejected means a loss of revenue to the company.

LIMITATIONS OF THE STUDY

Accurate figures for the impact of Aids on life assurance claims may not have been possible because of doctors biased reporting on deaths as a result of Aids or medical expenditure as a result of the Aids related complex.

The study findings may be deemed too small to give a national or whole industry picture. They may be ignored because the probability of loss due to Aids is not calculable so cost of insurance cannot be accurately determined.

RECOMMENDATIONS TO INSURANCE COMPANIES

Because of the increasing levels of money paid out to Aids related claims, the researcher would recommend the following:-

The insurer can determine premiums determined on individual merit of the proposer's proposal. This will help to eliminate discrepancies created by the blanket premiums paid by individuals who belong to various categories and risk groups. This will also eliminate any unfair charges imposed on the uninfected.
The insurer may also establish a fund, pool, or reserve, to cover the extra claims due to Aids. This will also protect the insurer against adverse future effect. Taking say a fraction of the premium paid to a separate account to act as a buffer may fund the reserve. This will not necessarily mean an increase in premiums charged.

The insurer may also continue to ask for HIV antibody tests and other related tests more frequently as well as supplementing underwriting controls by asking explicitly for risk factors such as night sweats, persistent diarrhoea, increased infections by virus, bacteria and fungi. These records are to be told to the insurer and kept for future reference.

The insurer should also continue using exclusion and cancellation clauses in cases where life policy proposers and holders are HIV positive.

The insurer should also re-insure his life business risks so that the impact does not hit him so much incase of extreme losses.

An inclusion of a premium adjustment clause can be allowed as another measure that this insurer can have the capacity to bear the costs of Aids related claims which have been continuously increasing. This will help adjust the premiums to fit the depletion rates resulting from Aids related claims.
SUGGESTIONS FOR FUTURE RESEARCH

This study was only based on one insurance company. It will be interesting to have insurance companies conduct individual studies of the same nature. The results will be combined and compared. This will create a possibility of giving Aids sufferers an insurance cover without any "special" terms such as exclusion or cancellation clauses. This will be as a result of coming up with a near exact industry picture.
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LETTER OF INTRODUCTION

Rebecca W. Muturi
P.O. Box 14634
NAIROBI

11th November, 1999

The General Manager
Life and Pensions Department
NAIROBI

Dear Sir / Madam,

I am a student at the United States International University - Africa, currently undertaking a research to determine the impact of AIDS on Life Assurance Claims.

You have been identified as a respondent to the research. I will appreciate an honest response from you.

Thank you.

REBECCA W. MUTURI
APPENDIX 2

DATA COLLECTION FORM

1. Designation of the respondent

SECTION A


<table>
<thead>
<tr>
<th>Year</th>
<th>Premium Amount (Kshs.)</th>
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<tr>
<td>1990</td>
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2. Year | Annual Life Claim Payout
--------|------------------------
1989    |                        
1990    |                        
1991    |                        
1992    |                        
1993    |                        
1994    |                        
1995    |                        
1996    |                        
1997    |                        
1998    |                        

3. Impact of AIDS on the life assurance claims.

<table>
<thead>
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<th>Year</th>
<th>Money paid out to AIDS related claims (per annum)</th>
<th>Kshs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
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### SECTION C

4. Measures taken by the company to cope up with the life assurance claims over the years.

<table>
<thead>
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<th>Year</th>
<th>Measures</th>
</tr>
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<tbody>
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