Introduction

Competition in the insurance industry is on the rise, with companies making an effort to establish themselves in the yet-to-be-fully-developed Kenyan scene. Among the main factors which have hindered the success of insurance policy uptake are the lack of sufficient knowledge on how insurance policies work and why the covers are important. Both insurance and reinsurance companies exist in Kenya, with a range of products in their portfolios as well as some distinguishing offers aimed at setting themselves apart from their competition. One such entity is APA Insurance Limited, one of Kenya's most recognizable brands in the insurance industry. This report analyzes APA in terms of its operations, the risks it is exposed to in its operations, its product portfolio and its general performance relative to the industry's position in the broader sense. A summarizing conclusion will give a round-up of the key points at the end of the report.

Overview

As at April 2016, Kenya has a total of 47 insurance, assurance and reinsurance companies, of both local and international origin and varying in scale of operation. In as much as the industry is yet to be fully developed, the country has insurance specifically tailored for clientele of the Islamic faith, with the fully Sharia-compliant Takaful Insurance of Africa. Other noteworthy insurance companies competing with APA Insurance in the industry include UAP Holdings, CFC Heritage Insurance Company Limited, Britam Kenya, Kenya Reinsurance Corporation Limited, Old Mutual Life Assurance Company Limited and Jubilee Insurance Company of Kenya Limited, among others.

Regulation and organizational consolidation in the insurance scene locally is split across a number of organizations. Insurance in Kenya is regulated primarily by the Insurance Regulatory Authority (IRA). This is a statutory body mandated to oversee insurance company details such as adherence to the code of conduct issued to insurance companies, initial setting up shop in the country, location changes and fair competition. The Association of Kenya Insurers (AKI) operates as an umbrella body under which all insurance, reinsurance and assurance firms in Kenya fall. It is mandated with ensuring the insurance industry in Kenya grows and develops, creating insurance awareness and promoting prudent practice.

The rate of insurance cover uptake has been significantly influenced by a number of factors over the past decade. Following the 2007 post-election skirmishes in the country, cover rates increased sharply, especially in the 2009-2013 period. A 20.3% compounded annual growth rate was recorded in the aforementioned period. In 2014, the insurance industry in general experienced an increase in life insurance investments, standing at KES225.3 billion, which amounted to about 69% of total investments in the industry. Gross premiums collected increased from KES131 billion in 2013 to KES157.8 billion in 2014. General claims over the same period also increased, from KES33.1 billion to KES41.9 billion, a 25.3% surge. Such figures indicate a rapidly growing industry bearing significant returns for firms involved in it and commanding large market shares. APA Insurance Limited seeks to continuously grow its footprint locally through a variety of marketing strategies and competitive products.

Corporate Information

About APA Insurance Limited

Following the merger of Apollo Investments Limited and Pan Africa General Insurance, APA Insurance Limited (APA hereon) was formed in 2003. Headquartered in Nairobi, the company competes with a host of other insurance providers in Kenya and has since its inception grown to become one of the mainstream brands in the country. The principle activity which the company is involved is general insurance transaction. It operates as a private company and is not listed on the Nairobi Securities Exchange.

Brand Distribution

The insurer has a countrywide presence. Its head office is located in Nairobi's Westlands area. Other branches are located in the central business district (Banda Street in Nairobi), Thika, Nakuru, Kisii, Eldoret, Mombasa, Kisumu, Naivasha, Meru, Embu, Nyeri and Machakos. Through its strategic location choices, APA has been able to cover all major towns and cities in Kenya, which has allowed it to greatly increase its visibility. In addition to its Kenyan presence, APA has spread into Uganda, with branches in Kampala, Mbale, Mbarara and Jinja. A broader East African presence has added to the group's experience while serving as a hedging factor.

Product Portfolio

APA is involved in a number of segments in its product portfolio, key among which include but are not limited to general insurance, property, marine, motor and health. This section highlights selected segments in which the company offers insurance covers.

The Motor Private Insurance package is elaborate, covering eventualities such as political violence and sabotage, riots, loss in the course of ordinary use and civil commotion. The cover is in 3 broad sections; comprehensive, third party only and third party fire & theft. Also included as part of motor insurance is the *Bimabamba* package, which allows customers to pay insurance premiums for their vehicles with added flexibility.

The APA *Domestic Package* covers property against theft or damage, and extends to include injuries which may be caused therein. Specific subdivisions are provided and include the following elements; buildings, contents (within the buildings, such as fittings and so on), all risks (covers small portable items such as electrical appliances within the buildings), workmen's compensation, owner's liability and occupiers & personal liability. This way, not only does the company compensate home owners for the damage to buildings themselves but also of contents therein and allows said owners to look out for the welfare of their buildings' occupants.

Business Combined is a package which collectively covers several risks which business owners are exposed to, all under one umbrella. Included in the package are covers against fire, burglary, political violence, terrorism, personal accidents, loss of money, loss of goods in transit, employers' and public liability. This allows businesses to simultaneously accommodate all their risks without the need to take up individual policies for each risk.

In an effort to tap into the agricultural industry, which supports the Kenyan economy (contributing 29.4% and 30.3% GDP in 2013 and 2014 respectively), APA offers livestock insurance. The package includes cover for a range of eventualities such as accidental death, theft or illness. Linked to this is the *Index Based Weather Insurance* package which protects farmers against damage to their crops caused by unfavorable weather conditions.

Health insurance packages cover both individual clients as well as family units for bed charges, diagnostic fees, doctors' charges and for drug purchases. These are under the *Afya Nafuu* and *Jamii Plus* packages. Unique to APA is its *Femina* plan, which provides cash benefits for policy holders who have been diagnosed with cervical or breast cancer. For this reason, APA's health cover is one of the most comprehensive in the market.

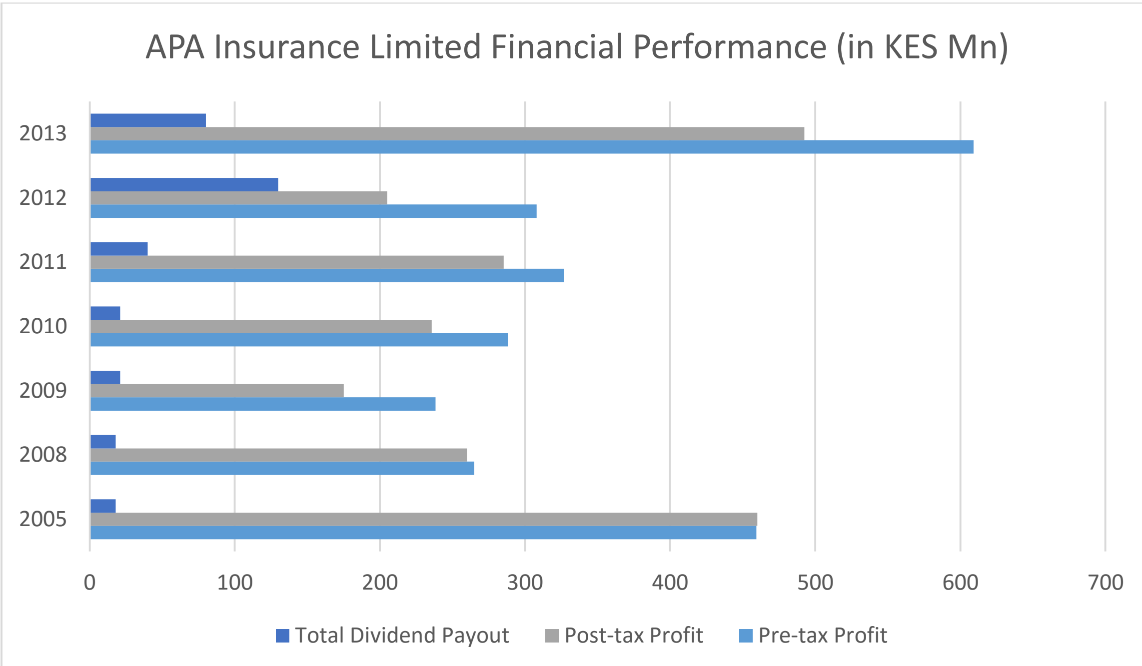
Other packages include an education cover, a future lump sum payment plan, packages tailored for corporate clients as well as an asset management section.

Financial Performance

APA has had a mix of positive and negative financial performance through the years as part of the insurance industry's business cycles. This report captures and presents statistics on the company's financial performance from selected years.

In 2005, the company's profit before tax stood at KES459.4 million, with a KES728, 000 taxation credit pushing profit after tax to KES460.1 million. The total dividend payout for the year was KES18 million. In 2009 APA underwrote premiums worth KES3.692 billion up from 3.003 billion the previous year. The profit before tax decreased from KES265.1 million in 2008 to KES238.4 million. Post-taxation the profits reduced to KES175 million but the total dividend payout increased to KES21 million from KES18 million in 2008. 2012 saw the company's gross premium income stand at KES5.95 billion from KES5.3 billion in 2011, driven by quality checks of the book. In 2011, pre-tax profit amounted to KES326.7 million but this figure reduced to KES307.9 million in 2012 following a one-off diminution of investment, and further shrunk to KES205 million post-tax as at the end of 2012. The total dividend payout improved dramatically from KES40 million in 2011 to KES56 million in 2012, with a special KES74 billion payout, bringing the 2012 total to a respectable KES130 million. By the end of 2013, gross premium income had increased from KES5.59 billion to KES6.55 billion. In the same year, APA recorded its highest increase in pre-tax profit, which rose to KES609 million, stood at KES492.5 million after tax and had a dividend payout of KES80 million.

The following presents a graphic illustration summarizing the above information.



Source: APA Insurance Limited

Industry Risk

Operation in the insurance industry exposes APA to a number of industry-related risks. By instituting measures to reduce risk exposure, the company can place itself in a position to stay ahead of its competition. This report captures some of the main industry risks, although it is important to note that the list is not exhaustive.

Tastes and Preferences

The nature of the insurance industry leaves little room for variations in tastes and preferences. However, these factors are influenced by the distinctiveness of products and the quality of service, which may lure customers top one insurer over another. APA has attempted to accommodate tastes and preferences through offering packages that are all-inclusive, as well as its unique *Femina* plan. This plan is especially valuable, considering the surge in cases of lifestyle disease diagnoses, such as cancer, which the policy is primarily concerned with.

Product Obsolescence

Product obsolescence in the insurance industry varies from other industries in that policies provided cover risks which have been and will continue to be the same. For instance, the risk of fire, theft or injury has been the same throughput the years, so such policies cannot become obsolete. The risk of product obsolescence can, however, be mitigated through the introduction of policies to cover eventualities previously not provided for. APA has done this through introducing packages which cover against losses from terrorism which has increased in prevalence over the last decade, as well as political skirmishes following the 2007/2008 post-election violence in the country.

Business Cycles

As has been illustrated from the financial performance of APA, business cycles are one of the main risks that can have highly significant positive or negative impacts on overall performance. Several interacting factors influence booms and busts which make up business cycles. For instance, the creation of favorable operating environments for businesses allow more individuals or groups to set up their businesses and thereby take up insurance policies to cover them. Alternatively, the licensing of a large number of insurance providers would lead to an oversupply of service providers, which would cause a bust, and so on. To reduce risk exposure, APA has a product portfolio which provides cover against eventualities which both might occur at specific periods as those which may occur randomly. Political risk and health covers respectively are examples of this.

Company Analysis

A company analysis of APA will be done with regards specifically to its sources of revenue and the stability of such sources as identified.

The insurer primarily relies on its insurance policy provision for its revenue stream in the form of premiums paid for the covers taken up. This is in addition to its asset management role provided under its Apollo arm. Other minor sources on revenue include its investment in government securities and commercial bonds which are recorded as part of its assets. Based on prevailing economic conditions, investments in commercial bonds and government securities can potentially yield mixed returns. Since APA specializes in insurance and has branches in Kenya and Uganda as well as a variety of products in its portfolio, this source of revenue is more secure and stable. Furthermore, relying on the already analyzed and illustrated pre-tax and after-tax profits which has shown an upward trend, APA’s revenue-generating ability is on the right track for the foreseeable future, all factors held constant.

Company Risk

Operational diversity allows an entity to spread out its company risk and reduce financial damage suffered in the event of the occurrence of unforeseen events. APA has both involved itself in insurance cover provision over a large geographical area as well as in asset management.

Financial diversity also mitigates company risk by allowing an entity to park its funds in a number of avenues and thereby avoid suffering compounded losses from a single source. As has been mentioned, the insurance provider has invested in government securities and corporate bonds, allowing it to increase its wealth without solely relying on premium payments for profit-making and revenue. Through the returns from said investments, APA is able to place itself in a position of liquidity.

Asset flexibility is another yardstick used to estimate a business entity's company risk exposure. In APA's case, its identified assets are illiquid, since bonds must be held to maturity to obtain maximum yield. Disposal before maturity is financially disadvantageous to the company, which points to the need to have a balance between liquid and illiquid assets.

Conclusion

APA Insurance Limited has placed itself as placed itself as a regional powerhouse in the insurance industry through a combination of innovative products and broad geographical visibility. Its products accommodate both individual and corporate clientele while uniquely including breast and cervical cancer patients who would otherwise not be covered. Based on the company's financial returns, it is in favorable waters in terms of liquidity and its ability to remain a going concern. With a broad portfolio and added investments, risk exposure is minimized to a significant extent, protecting both investors and policy holders.