INSURANCE INDUSTRY

Kenya's insurance industry has expanded extensively over the last decade. This can be attributed to information passed to Kenyans on the importance of insurance covers. Although most insurance covers taken are the statutory motor covers, other segments have had a rapid uptake; life, medical and new micro-insurance products.

As per 2013 reports, there were 47 operating insurance companies in Kenya; 24 non-life businesses, 11 life insurance and 12 composite firms (offer both casualty insurance and life insurance). There are also two re-insurance companies; Kenya Reinsurance Corporation (Kenya Re) and East African Reinsurance Company. The growth in the industry can be attributed to some key drivers and strategies. Marketing contributed 21%, staff quality service strategy 14%, dedicated management taking the same percentage of 14%, development of new products 11%, intensive market research, claims management, customer service & automation of business and office practices all adding value of 7% each. The main growth areas in insurance were business volumes leading with 31%, development of new key products with 14% and investment in product marketing by 7%.

REGULATORY ENVIRONMENT OF THE INSURANCE INDUSTRY IN KENYA

The insurance industry in Kenya is governed under Cap.487 of the Kenyan Constitution. Under the Insurance Act Amendment of 2006, Cap 487, the Insurance Regulatory Board (IRB) was established to regulate, supervise and develop the insurance industry. This statutory government agency has an independent Board of Directors which has fiduciary responsibilities. The IRB is now known as the Insurance Regulatory Authority (IRA). Under the amendment Act of 2011, an insurance company wishing to change its location, that of its branch or to open a new branch, must apply to the authority for approval. It was also given powers to manage assets of an insurance for public interest and also effect the recovery or compensation of asset in case of mismanagement.

Another body concerned with the regulation of the industry is the Association of Kenya Insurers (AKI). Membership is open to all insurance companies. It was established in 1987 as Insurance Association of Eastern Africa to promote prudent business practices, create awareness and growth of the Insurance industry.

HISTORICAL DATA AND NATURE OF THE INDUSTRY

The insurance industry has grown at a compounded annual growth rate (CAGR) of 20.3% during the years 2009 to 2013. This is due to the expansion of the distribution network and growth of premiums. Health insurance was one of the fastest growing segments of the industry, mainly due to the approval of two licensed medical underwriters. Personal accident and health insurance registered 28.8% CAGR. The loss ratios also reduced in both the life and non-life insurance significantly; from 50.5% to 46.7% and 60.1% to 56.4% respectively.

GROWTH POTENTIAL

Kenya’s penetration rate in the insurance industry is likely to grow steadily and fast. This is because Kenya has a well-established financial sector and innovation capacity by Kenyan

Insurance companies. Innovation such as paying premiums via mobile platforms has really played a niche role in the industry. Penetration into other foreign markets and neighboring countries also increase customer base. This is achieved mostly through mergers. Strategies being used by the industry to penetrate wider markets are:

- Simplifying products and creating innovative new ones
- Customer education
- Using social media and technology to reach the untapped lower end of the market
- Promoting the image of insurers
- Improving the functioning of member companies
- Modernizing the Insurance Act

Growth is inhibited by high levels of poverty in Kenya and lack of sufficient knowledge. The government is working hard to eradicate poverty.

ECONOMIC FACTORS

LEGISLATION

Rules governing the insurance industry change very frequently, even globally. The Basel committee holds conferences from time to time and introduce new Basel Accords with the latest one being Basel III of 2008. These Accords require a minimum capital requirement, and also discuss how to manage operational credit and market risks.

- Other legislative and taxation amendments in Kenya include increase in minimal capital requirement for insurers, introduction of 'cash and carry ' rules which transfer risk from the insured to the insurer upon payment of premium, introduction of penalties on late payment of claims, increase in the solvency margin for long term insurers, relaxation of investment limits for general insurers, change in the rules of taxation of long term insurance businesses and taxation of dividend income earned by a financial institution.

FINANCIAL REPORTING

The new Integrated Financial Reporting Systems (IFRS) is yet to be adopted by most insurance companies. This will reduce fraud and clear explanations will be set for the public to analyze risk information and explanation.

HUMAN CAPITAL

Matching work force needs and their skills in obtaining the company's objectives is quite a challenge. Most insurance firms do not invest enough in recruiting, training and career development of their work force in relation to the changing demographic factors almost every day. In future, it might become harder to obtain and retain an efficient workforce.

COMPETITION

Considering the hesitant nature of Kenyans to uptake insurance covers, 47 companies in Kenya compete stiffly for a market share. Compared to other countries globally, there is a low rate of penetration of insurance in the country. This can be attributable to the following:

- Kenyans lack credibility with insurance companies, especially when it comes to payment of claims.
- Generally, Kenyans have a poor culture when it comes to saving. Most people live beyond their means.
- Very low levels of disposable incomes for most Kenyans. Almost more than 50% of Kenyans are in the poor people bracket.
- Poor tax incentives by the government which discourages people from purchasing covers.
- Lack of adequate information on the importance of insurance covers and how they ought to benefit.

MERGERS AND ACQUISITIONS

Insurance companies merge and get acquired mostly because of financial difficulties in maintaining the minimum capital requirement and also paying claims. These mergers and acquisitions contribute to positive synergies if the cultures integrate easily. Some of the synergies are economies of large scale such as low running costs, more earnings and increased presence in the market.

MAIN COMPETITORS

If one is looking to take up a cover in Kenya, the following are some of the most competitive firms in Kenya.

- Co-operative Insurance Company

CIC Insurance Company started as an insurance agency firm for Kenya National Federation of Cooperatives (KNFC) in 1968 but granted a license in 1978 to operate as a composite insurance company. It offers life and general insurance services.

- Blue Shield Insurance Company

  Blue Shield offers general, agricultural and life insurance and is rated as top ten in Kenya.

- Insurance Company of East Africa (ICEA) Lion Group

  Insurance Company of East Africa (ICEA) merged with Lion of Kenya Insurance Company Limited to form ICEA Lion Group. These two companies are known for financial and insurance services. It also provides corporate trusteeship and fund management through their subsidiaries. It is well established in Kenya, Uganda and Tanzania.

- UAP Provincial Insurance Company

  UAP Provincial is as a result of the merger between UAP of France and Provincial of the UK. It has been in operations for over 80 years. It offers life, tailored, marine, pension, healthcare, personal, and commercial insurance services.

- Kenindia Assurance Company

  This came about through a merger of all Indian insurance companies. All insurance companies sat down in 1978 to come up with Kenindia Assurance company. It is a non-life insurer with a high gross premium income of KES3 billion by 2007, 29 years into their operations.

- British American Insurance Company

It is also known as BAICO. It started its operations in 1920 and extends both assets and insurance services. It has a wide asset base due to its association with the powerful CL Financial Group.

- Heritage Insurance Company

  This insurance company is one rated AA- globally, due to its ability to pay huge amounts of claims. It was formed in 1976 after Norwich Union Fire Insurance Society and The Legal and General Insurance Company but in the 1980's became 100% fully owned locally.

- Jubilee Insurance Company

  Incorporated in 1937, Jubilee Insurance Company Limited was formed as a composite insurer and provider of mortgage loans in Mombasa. It is a market leader in East Africa with headquarters in Nairobi.

- APA Insurance Services: it came about due to the merger process of Apollo and Pan Africa in 2003. It provides professional liability packages and general liability policies in addition to rental or photo equipment. Other products are compensation of workers, auto commercial and employment practices liability services.
- Pan Africa Insurance Holdings: it was established in 1947 in Mombasa and it tapped the under developed assurance market. In 2003, Pan Africa General Insurance limited merged with Apollo Insurance Company Limited to form APA. It was also the first insurance company to offer life insurance without a medical test.