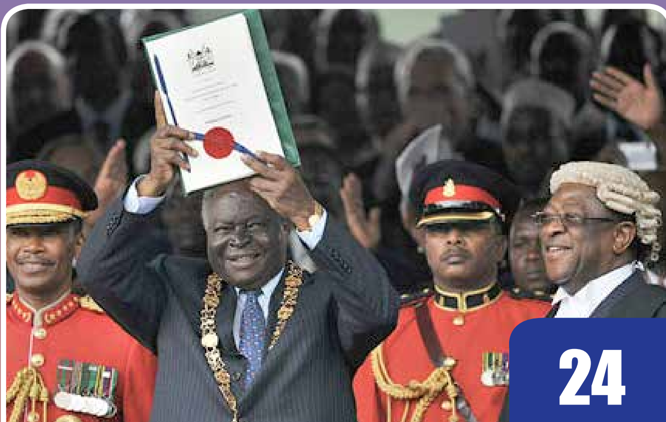

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IN THIS ISSUE...

Warped may sound the Chinese adage that, "A journey of a thousand miles starts with a single step". But so true stands the maxim in the history of this journal. Ten years prior to this issue, a team of personnel at AKI communed and found it important to start a platform that would address the plight of—nay advise—the public and business partners on obtaining and arising issues in the industry.

Launching the journal was not easy: Who was to generate content? Who was to foot the bill for publication? What would be the frequency and who was to print the publication? These were just some of the myriad 'headaches' that bedevilled the team. Nevertheless, the first issue of The Kenya Insurer rolled off the press on schedule in 2003 courtesy of the team's commitment and venerable support from the members and associates of the association. Ten years down the line, The Kenya Insurer passes as one of the most authoritative publication in Kenya in terms of content and reach.

In this issue, we celebrate our tenth anniversary by reviewing the development of the industry in the life of the journal. Herein you get well researched articles by industry and related experts.

A key observation by industry experts indicates that Kenyans are now embracing Insurance than when this journal came into being. Of interest is how fast Kenyans have taken to safeguarding their old age through retirement benefit schemes. Justus Mutiga gives an exposé of this in 'Retirement Benefits in Kenya' by offering that total investments in retirement funds were estimated at Ksh. 403,176 million as at the end of 2011 as compared to Ksh. 44,704 million in 2001; a growth of over 800 per cent. The pensions industry has bounced from a low of 44.7 billion in 2001 it held in assets to 403.2 billion it held in 2011 and Justus attributes this to a combination of factors including awareness in embracing of savings culture and economic growth. This resonates with William Kiama's revelation in 'The Industry in The Last Decade' that gross premium for the year 2011 was Ksh.60.67 billion, compared to Ksh. 52.35 billion in 2010; representing a growth of 15.9 per cent. This asserts that the industry's growth is on an upward trajectory and that the landscape remaining even or smother, we expect better times.

The industry has kept in step with global technological developments as Leah Karobia observes in 'ICT in the Industry'. She notes that the industry has made wide strides in automating processes hence the observable efficiency in service delivery as compared to the pre-journal era when operations in the industry were all 'pen and paper'.

Overall, 'the industry has had it good' but it should not sit on its laurels. There are emerging challenges that require constant rethinking .For instance, as you will find in 'Insurance at a Glance', catastrophes are changing in nature and 'frequency' hence the industry has to learn to move quickly to respond to unplanned events and global risks that are now occurring at an increasing rate.

Read on, enjoy, and let's celebrate this great achievement that you are an honoured part of.

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FOREWORD

By Mark J. Obuya

Since the "Kenya Insurer" was launched in 2003—with the primary objective of informing and educating the public on insurance matters—it has played a very important role in promoting and creating awareness about insurance services and we have since then witnessed stability in the insurance industry and tremendous growth.

This special edition of the journal looks back at the Association's achievements over the past ten momentous years, the gains over the period and the challenges and opportunities that the insurance industry faces as we enter the second decade of the publication's existence.

In the last 10 years, the Association has made some very remarkable achievements. These achievements have taken time and considerable effort by the Secretariat, the Board and the members of AKI. It may not be possible here to enumerate the many admirable achievements of our Association but the following stand out.

In view of the crucial role a properly regulated industry plays in national development, AKI, through the National Budget Proposals lobbied the government to convert the then Department of Insurance in the Ministry of Finance to an autonomous independent Authority. Consequently, the government in May, 2007 elevated the Department of Insurance from a Department in the Treasury to an autonomous Insurance Regulatory Authority which has contributed immensely to the development of the Insurance industry in partnership with our Association and other stakeholders.

The Association also lobbied the government to introduce the "cash and carry" mode of premium payment through proposals which were aimed at amending Section 156 of the Insurance Act. In June 2006, the Act was amended to introduce "Cash and Carry". This rule requires clients and intermediaries to pay premiums immediately cover is taken. This has stabilised the financial position of the insurance industry and reduced the huge outstanding premium owed to insurance companies which were in billions before the Act was amended.

The last decade has also seen a tremendous increase in Gross Written Premium. In 2003 when the "Kenya Insurer" was launched the Gross Premium for the entire industry was only Ksh. 27.9 billion for both life and general. As at December 31, 2011 the Gross Written Premium had grown to Ksh. 91.6 billion which is a remarkable achievement. This growth would not have been possible were it not for the important role that the Association through the journal played in educating and informing the insuring public on the purpose of insurance in mitigating and managing risks.

Finally, but not least was the capping of third party injuries compensation from unlimited compensation to Ksh. 3,000,000 under the Motor Vehicles Third Party Risks Act Cap 405, in 2006 which by any means was a major achievement for the industry. This has gone a long way in reducing the outlay on third party injury claims and mitigating abuse of the then open compensation.

Going forward, the Association needs to implement its five year strategic plan for the year 2011-2015 in order to increase the growth of the insurance industry. There are huge opportunities in the region; in microinsurance, bancassurance, telecommunication sector, oil and gas, infrastructure development in the country and in the 47 counties.

All that needs to be done is to develop capacity, skills and innovative products that meet the needs of different segments. We need to work on appropriate ICT platforms to distribute and sell our services as efficiently as we can.

There is need to continue constructively engaging the government to introduce the Structured Compensation Scheme and a conducive regulatory business environment which is a prerequisite for accelerated growth.

There is a permanent need to understand the ongoing changes in the economy, the region and the regulatory environment in which we operate so that we can adopt our tools to the changes in order to identify opportunities. To remain credible and relevant as an industry, we need to be constantly alert and keep our services accessible at competitive terms.

The achievements of the past decade would not have been possible, were it not for the exemplary and visionary leadership of the Secretariat, the Board, Management (past and present) and due to the energy and efforts of all staff at the Secretariat. On this special occasion, I would like to express my sincere gratitude to all those who have helped in one way or other to lay a solid foundation for our industry.

There is need to understand the ongoing changes in the economy, the region and the regulatory environment in which we operate so that we can adopt appropriate tools to identify opportunities. To remain credible and relevant as an industry, we need to be constantly be alert and keep our services accessible at competitive terms. The achievements of the past decade would not have been possible, were it not for the exemplary and visionary leadership of the Board and the Secretariat. In this special edition, I would like to express my sincere gratitude to all those who have helped in one way or other to lay a solid foundation for our industry. To all the staff at the Secretariat and the journal team, I express my deepest appreciation for your outstanding contribution in making this journal a success.

Mark J. Obuya is Chairman of the Association of Kenya Insurers and CEO of Corporate Insurance.

Customer care tactics

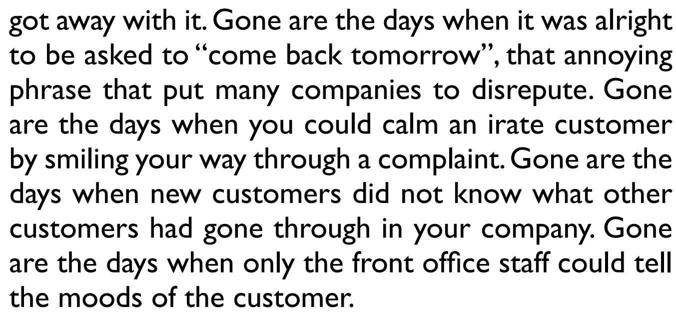
The evolution in the last 10 years

By Njoroge Waweru

Ten years is a long time in corporate life. In the field of customer care these last 10 years have indeed been very long, dynamic and perhaps the most exciting ever. The first decade of the new millennium shall be described by future historians as the decade of customer sovereignty. If customer sovereignty can be described as freedom to choose the best, then the last decade shall be more suitably described as the era of customer rebellion and revolt.

You will recall that a decade ago, as the world anticipated the impending millennium crash with bated breath, companies put their IT developments on hold 'until after Y2K'. In those years, the best-rated corporate customer service department was that which had young beauties smiling incessantly behind large counters and asking "what can we do for you?" before offering you a seat to wait for the appropriate responder. The telephone was answered with the routine "thank you for calling xyz company; what can I do for you?" After explaining your predicament, you would be transferred to another responder, who might also transfer you to another and then another. With each transfer, you repeated your story all over again, only for the last responder to either put you on a long hold or ask you to visit the office the following morning as the boss 'was in a meeting'. At the end of it, you had possibly run out of telephone booth coins, patience and decency.

The last decade has seen the customer become the absolute monarch. It was easy to say that "the customer is king in our business", but many of those companies treated their customers more like trash and


got away with it. Gone are the days when it was alright to be asked to "come back tomorrow", that annoying phrase that put many companies to disrepute. Gone are the days when you could calm an irate customer by smiling your way through a complaint. Gone are the days when new customers did not know what other customers had gone through in your company. Gone are the days when only the front office staff could tell the moods of the customer.

These 10 years have witnessed a technology explosion, and with it many customer-driven innovations. Customer reach is wider, customers themselves are more aware of their rights and are demanding more attention, immediacy and transparency in their interactions with your company. Needless to say, customers want to be handled by knowledgeable professionals who can answer their questions at the first point of contact. Good customer service is therefore no longer the hallmark of an excellent company; it is one of the common benchmarks that must be in place after the trading license. The customer care mantra has also changed from customer service (your pompous marketing claims) to customer experience (what customers actually encounter as they deal with you).

> CUSTOMER EXPERIENCE HAS EVOLVED TO BECOME A HIGHLY PROFESSIONALISED AREA, ONE WHICH IF NOT WELL HANDLED, HAS REAL POTENTIAL TO DRIVE A COMPANY TO ITS KNEES.

Business consulting firm, Frost & Sullivan, contend that there is a concerted effort across industries to dramatically improve their customer experience. In many cases, social media has lifted the veil to expose a gap between a company's marketing claims and the true quality of their products and service delivery. Customers are no longer willing to suffer in silence. They have taken to the Internet to complain and warn others about shoddy products, unethical practices, and poor customer service. Increasingly, customers are willing to vote with their wallets in favour of companies that provide an exceptional customer experience. But the most obvious outcome of social media is that new customers can review the rating of a company long before they approach them for services. By simply searching customer reviews, they can view all complaints and even participate in the online reviews by interacting directly with your unhappy customers. Customers can therefore decide in advance whether they want to put up with such experience, and predictably, most will vote for your bankruptcy.

Customer experience has evolved to become a highly professionalised area, one which if not well handled, has real potential to drive a company to its knees. It is a profession to be staffed with the most qualified and best trained talent, and equipped with the best technology. Managers can no longer wait to see the occasional complainant seeking an appointment – since many of them will complain to the whole world anyway and render that manager jobless.

Customer experience goes beyond simply handling customers nicely and reacting to 'dirty linen' in the social media. It is a professional management of customer expectations perhaps one of the most valuable tools a company will ever have. Managers today want to know how many customers interacted with the company and for what. All means of interaction are evaluated. These will include direct visits, telephone calls, letters or emails written, SMS texted, chat and social media, interactive websites among others. You must know what the customer's needs are through every interaction and every channel. It is a process of mining valuable data from customers, a field now referred to as customer interaction analytics.

Powerful software engines and related technologies have now been developed to mine data from customer interactions. NICE Systems, a NASDAQ-listed intent-based solutions provider, patented a cross-channel analytics platform that uses powerful algorithms to analyse speech, call flow, web interactions, email and online chat conversations, customer surveys and agents' desktop activity, to construct a unified view of the customer interactions taking place across an organisation's diverse communication channels and uncover the insights hidden within them. Leveraging these insights, companies can streamline operations, define and create a differentiating customer experience at the decisive moment and improve revenue growth.

UTOPY's Customer Interaction Analytics combines a Speech Analytics engine and a Text Analytics engine. The term "Speech Analytics" was coined by UTOPY in 2002, when UTOPY released the first commercially available Speech Analytics product. Prior to 2002, speech recognition and analysis technology had primarily been used by government agencies for intelligence gathering purposes.

Speech Analytics are speech transcription methods that use Speech to Speech or Speech-to-Phoneme

(also known as Phonetic) conversion methods. In these approaches, a speech recognition engine transcribes the audio into collections of words or phonemes (the smallest discreet unit of human speech), and then a text mining or search engine attempts to spot keywords-or combinations of keywords - in the converted text or phonemes.

Analytics engines can also profile a customer and can alert the responder on priority interactions whenever a sensitive customer, a large account customer or VIP shows up. Based on the customer profile and history, the analytics engines will summarise previous interactions by date, time and attendant, suggest possible issues the customer could raise, and generate possible responses to give based on company policy. Customers hate repeating the same story over and over again, and will remember the responder who served them well. Based on this understanding, analytics engines can be programmed to ensure that the customer's history is displayed each time that customer calls (predictive churn reduction) and such calls can be routed directly to the responder who last served the customer to gain familiarity. Calls can also be routed to that customer's best rated responder, to build on preceding satisfaction. Familiarity greatly elevates customer satisfaction by eliminating chances of customer irritation likely to occur from a bunch of ignorant respondents.

UTOPY's analytics approach utilises the Exhaustive Extraction Capabilities, the ability to automatically extract people, places and things and their roles and relationships in text. By using this type of advanced linguistic understanding, which is done automatically, the responder can identify and extract the true meaning of abstract text, thus getting early warnings of anything that could lead into dissatisfaction.

Exhaustive Extraction looks at speech analytics, text analytics, data analytics and feedback analytics. It extracts words and their surroundings, diagramming sentences and phrases in much the same way as the human mind interprets them. It interprets this content and then exhaustively extracts facts, relationships and sentiments, thereby enabling management to make extremely accurate inferences from diverse customer data. Decision makers can therefore understand most probable customer issues long before the customer actually reaches the company. Upon contact by the customer, responses are quick, well toned and accurate, and any additional information obtained builds up the database in real time. Responders are able to give accurate on-the-spot responses. They do not need to transfer a call to a third party responder. This effectively moves management from the corner office to the front office and ensures that customer queries are speedily resolved by a knowledgeable professional upon first contact. Such customers can only give positive reviews of excellent services in the social media, thus contributing to corporate competitiveness.

Njoroge Waweru is a Consultant, Enterprise Dimensions Consulting.

AFRICA RE

AFRICAN REINSURANCE CORPORATION

AFRICA RE REAFFIRMED BY S & P

Africa Re Nairobi office saw a 23% growth in 2011 with a gross premium income of KShs. 8 billion up from 6.1 billion in 2010. The profit rose to KShs. 1.5 billion against prior year of 0.62 billion. The consolidated premium for the group was 85 billion up from 80 billion in 2010 and the profit 5.8 billion up from 5.2 billion.

Africa Re has managed to retain its rating from Standard and Poor at A-/Stable, against the above performance.

Insurance at a glance

The history, the state, the future

By Aram Kaboro

This issue of the Kenya Insurer marks the tenth anniversary of the journal and we devote this article to the history, development and future of Insurance not only in Kenya but globally.

The history

According to Investopeadia, the history of Insurance can be traced back to 2100 B.C. The first written insurance policy appeared in ancient times on a Babylonian stone pillar with the code of King Hammurabi carved into it. The "Hammurabi Code" was one of the first forms of written laws. These ancient laws were extreme in most respects(Remember "An eye for an eye"), but it offered basic insurance in that a debtor did not have to pay back his loans if some personal catastrophe—such as disability, death, flooding—made it impossible.

As history progressed, the needs for insurance increased. The Phoenicians and the Greeks wanted the same type of insurance with their seaborne commerce. The Romans were the first to have burial insurance—people joined burial clubs which paid funeral expenses to surviving family members. In medieval times, the guilds protected their members from loss by fire and shipwreck, paid ransoms to pirates, and provided

respectable burials as well as support in times of sickness and poverty.

Then came the very first actual insurance contract, signed in Genoa in 1347. Policies were signed by individuals, either alone or in a group. They each wrote their name and the amount of risk they were willing to assume under the insurance proposal: That is where the term underwriter came from. In 1693, the astronomer Edmond Halley created a basis for underwriting life insurance by developing the first mortality table. He combined the statistical laws of mortality and the principle of compound interest. However, this table used the same rate for all ages. In 1756, Joseph Dodson corrected this error and made it possible to scale the premium rate to age.

By this time, the practice of insuring cargo while being shipped was widespread throughout the maritime nations of Europe. Then in London, in 1688, the first insurance company was formed. It got its start at Lloyd's Coffee House, a place where merchants, ship-owners, and underwriters met to transact their business. Lloyd's grew into one of the first modern insurance companies—Lloyd's of London.

Fast forward to the nineteenth century, many societies were founded to insure the life and health of their members. Fraternal orders were created to provide low-cost insurance strictly for their members. Today, many of these fraternal orders and labour organisations still exist. Most employers offer group insurance policies for their employees, providing them with life insurance, sickness and accident benefits, and pensions.

Our state

In Kenya—as in all communities in Africa—the concept of insurance and particularly the "social insurance programme" dealing with socio-economic problems has been around for a long time. Members of a community pooled together resources to create a "social insurance fund". The "premiums" ranged from material to moral support or other payments in kind. From the fund, "drawings were made out" to support the few unfortunate members exposed to perils. However, the history of the development of commercial insurance in Kenya is closely related to the historical emancipation of Kenya as a nation.

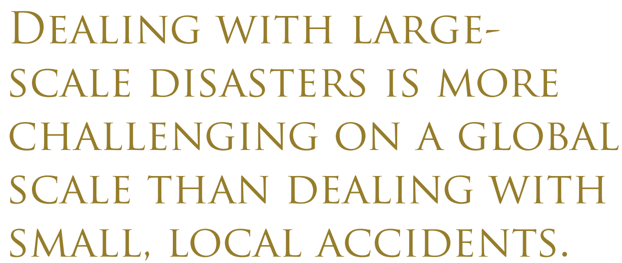
With the conquest of Kenya as a British colony complete, settlers initiated various economic activities, particularly farming and extraction of agricultural products. These substantial investments needed some form of protection against various risk exposures. British insurers saw an opportunity in this, and established agency offices to service the colony's insurance needs. Prosperity in the colony soon justified expansion of these agencies to branch networks with more autonomy and expertise to service the growing insurance needs. By independence in 1963, most branches had been transformed to fully-fledged insurance companies.

By the time this journal was inaugurated(2002) Kenya's insurance industry had flourished, and had 41 registered insurers; 15 transacting general insurance business, two transacting life business, while 24 were composite insurers—transacting both life and general insurances: Today, the industry boasts of 46 companies. The country's insurance industry leads within the East Africa Community and is a key player in the COMESA (Common Market for Eastern and Southern Africa). The industry employs over 20,000 people, underwrites over Ksh.90 billion premiums, and pays over Ksh. 35 billion per annum in claims. The largest 10 insurers handle over 70 per cent of the motor business with a similar number handling well over 90 per cent of the property business in the market.

The future

The Wharton Risk Management and Decision Processes Center(based at the University of Pennsylvania) observes that the world has entered into a "new era of catastrophes" that will redefine the insurance industry.

As proof, the centre suggests looking at the last 10 years, "There were the Sept. 11, 2001, terrorist attacks; followed by the anthrax crisis; followed by the SARS epidemic; blackouts on the East Coast in which 50 million people were affected; the Indian Ocean tsunami in 2004; terrorism attacks in the United Kingdom; Hurricanes William, Rita and Katrina; China's major earthquake in 2008 that killed nearly 50,000 people only a few weeks after a major cyclone killed more than 100,000 in Myanmar; the financial crisis; earthquakes in Haiti and Chile; the BP oil spill; Japan's earthquake and tsunami and nuclear issue; and now significant tornadoes and flooding across the United



States." Locally, we have had the 2008 post election violence and the emerging terrorist attacks.

The increase in significant catastrophes suggests the insurance industry should re-think the way it looks at risk management, especially because the impact of disasters is greater as countries are more interdependent on each other.

Conventional thinking holds that risks are mainly local and routine; that it is possible to list all unforeseen events that could take place, determine their probability based on past experience, measure the costs and benefits of specific risk protection measures, and implement these measures for each risk. Many organisations and Governments make decisions using risk and crisis management tools based on these somehow outdated assumptions. As a result, these organisations do not have the agility needed to move quickly to respond to unplanned events and global risks that are now occurring at an increasing rate. There is hence an emerging risk architecture that can be a framework against which people can start to think about catastrophes more strategically, so that they can be better managed.

According to the Wharton Center, there are six characteristics, or pillars, that define what is happening in the new architecture.

- Growing interdependencies and globalisation. As a result of a growing globalisation, social and economic activities are more dependent on each other.
- Changing in scale from local to global risks that will lead to more devastating consequences when catastrophe strikes. Dealing with large-scale disasters is more challenging on a global scale than dealing with small, local accidents.
- A high speed, short-term horizon, which can be problematic.
- Uncertainty and confusing information distribution. It is becoming more difficult to quantify risks because of the speed at which they are occurring.The problem is that people generally are not trained or prepared to make a lot of risk management decisions under uncertainty. For instance, calculating risks associated with natural hazards has typically been easier than calculating risks associated with terrorism but that may no longer be the case.
- A modified public/private equilibrium. The responsibilities of the public and private sector can change radically and quickly.
- Extreme costs/extreme benefits. With increasing globalisation and concentration of populations in high risk areas as people move to urban areas, the cost of catastrophes is increasing.

On the other hand, there are opportunities for businesses that can reorient their services and products to help during disaster times. More catastrophes are major business opportunity for many companies that can innovate in the new space but also call for new technologies to help during disaster time.

Taking a long-term view, extreme catastrophes are going to occur more frequently, and result in more severe losses because of global interdependencies. There are natural catastrophes, as well as emerging opportunities for terrorist attacks, pandemics and cyber security breaches.

To survive future catastrophes, insurance industry professionals are going to have to manage risks knowing that past losses are no longer good predictors of future losses. And despite more uncertainty about the frequency and severity of risks, it is necessary to adapt to the new risk architecture.

Source: The LUMS Working Papers series: http://www.lums.lancs.ac.uk/

Wharton Risk Management and Decision Processes Center:htt www.wharton.upenn.edu/riskcenter/

Insurance in the EAC

The spread of Kenyan companies

By Birian Akwir

Kenya, Tanzania and Uganda have had a history of co-operation dating back to the early twentieth century. The customs union between Kenya and Uganda in 1917, which the then Tanganyika joined in 1927, was followed by the East African High Commission from 1948 to 1961, the East African Common Services Organisation from 1961 to 1967 and then the 1967 to 1977 East African Community (EAC).

In 1977, the EAC collapsed after 10 years. The three member states lost over 60 years of co-operation and the benefits of economies of scale. Each of the former member states had to embark—at great expense and at lower efficiency—upon the establishment of services and industries that had previously been provided at the Community level.

The EAC was finally revived on November 30, 1999, when the treaty for its re-establishment was signed. It came into force on July 7, 2000, 23 years after the total collapse of the defunct erstwhile Community and its organs. A customs union was signed in March 2004 which commenced on January 1, 2005. Burundi and Rwanda joined the EAC on July 6, 2009.

The table below compares EAC with other regional trade blocks and communities.

- African Economic Community (AEC)
- Intergovernmental Authority on Development (IGAD)
- Southern African Development Community (SADC)
- Common Market for Eastern and Southern Africa (COMESA)

African Economic Community					
Pillars regional blocs (REC)[1]	Area (km²)	Population	GDP (PPP) ($US)		Member states
			in millions	per capita	
(i) AEC	29,910,442	853,520,010	2,053,706	2,406	54
(ii) ECOWAS	5,112,903	300,000,000	703,279	1,748	15
(iii) ECCAS	6,667,421	121,245,958	175,928	1,451	11
(iv) SADC	9,882,959	233,944,179	737,335	3,152	15
(v) EAC	**1,817,945**	**124,858,568**	**104,239**	**1,065**	**5**
(vi) COMESA	12,873,957	406,102,471	735,599	1,811	20
(vii) IGAD	5,233,604	187,969,775	225,049	1,197	7

- Economic Community of Central African States (ECCAS)
- Economic Community of West African States (ECOWAS)

Source: CIA World Fact book 2005, IMF WEO Database.

The EAC region has an estimated population of 133.1 million persons, as per the 2010 census. It registered an average overall real GDP growth rate of 1.8 per cent in 2010 compared to an average growth of 4.4 per cent in 2009. In absolute terms, total GDP (at current prices) for the region amounted to US$ 79,231 million in 2010. The dominant sector in all the partner states in 2009 was agriculture, followed by wholesale, retail trade and manufacturing. The transport and communication sub-sector has consistently been improving its contribution to GDP. The per capita GDP (at current prices) was US$ 685 in 2010. Kenya had the highest per capita income of US$ 833.4, followed by Rwanda, Uganda, Tanzania, and Burundi in that order with US$ 540.0, US$ 525.9, US$ 522.0, and US$ 173.0, respectively. The EAC is smaller compared to other communities in Africa.

services. This is well articulated in Section 16 of the EAC Market Protocol.

The Free Movement of Services shall cover the supply of services (insurance included) as follows: From the territory of a Partner State into the territory of another Partner State; in the territory of a Partner State to service consumers from another Partner State; by a service supplier of a Partner State, through commercial presence of the service supplier in the territory of another Partner State (Setting up of an Insurance company in a member state) and by the presence of a service supplier, who is a citizen of a Partner State, in the territory of another Partner State.

With the above background what could be some of the factors that have prompted Kenyan insurance companies to establish offices in the member states and are there major challenges?

The spread of insurance companies within the region started in late 1980s but gained momentum after 2000. These are some of the possible reasons:

MEMBER STATE	POPULATION IN MILLIONS	REAL GDP GROWTH RATES	REAL GDP IN MILLIONS IN USD	GDP PER CAPITA	EXCHANGE RATE TO US DOLLARS	BALANCE OF PAYMENT-MILLION USD	GNDI (DISPOSABLE)
Burundi	8.4	3.9	1,499.1	173	1230.8	10	1644
Tanzania	43.9	7.0	11,941.1	546.7	1432.3	370	23,682
Uganda	31.8	5.6	9,538.9	525.9	2177.5	211	-
Kenya	38.6	5.6	18,543.7	833.4	79.1	156	34297
Rwanda	10.4	7.5	4,032.6	540.0	583.1	71	6148
East Africa	**133.1**	**5.9**	**45,555.4**	**685.0**	-	-	-

Source: Partner States 2010

East Africa Community Economic Performance.

The Protocol that established the East Africa Common Market was signed in 2009 and launched on July 1, 2010. The Protocol is being implemented in phases in five years to end in 2015 and is expected to lead to the free movement of labour, capital, goods and services within the EAC. It is meant to open up national boundaries of member states and harmonise taxes and trade laws to allow for full implementation of some aspects of the Common Market such as immigration and customs. Kenya, Rwanda and Burundi have agreed to waive work permit fees for EAC citizens. According to the Protocol, all nationals of member states are "free" to render and consume services including insurance

Larger Market

One of the reasons why Kenyan insurance companies have set up offices within the region is to increase their market from a population of 38.6 million in Kenya to 133.1million in EAC. The total African insurance premium in 2010 was estimated at US$ 68 billion, out of which US$ 46 billion was from South Africa. Kenya the largest economy in the East Africa Community had a paltry US$ 1 billion. With 46 companies and a small market, some insurance companies saw an opportunity in the neighbouring countries and decided to diversify and tap business from neighbouring countries. It is therefore important to note that Kenyan insurers who established within the community have increased their capital base and realised premium growth. It is

now possible to offer and consume insurance services under the forementioned four modes of supply of services.

Insureds With Cross Boarder Commercial Interests

Apparently, there are many insureds in Kenya with interests in manufacturing, tourism, transport and communication and building and construction sectors across the EAC who prefer their insurances to be covered by the same insurer across the region. In order to satisfy this need, insurers have found it necessary to establish offices across the community. They have also taken advantage to cover their subsidiary/captive interests across the Common Market. It is much easier to deal with motor third party (Yellow Card) claims if an insurer has an office in the member state where accident happened.

Kenyan supermarkets are an example of insureds that prefer to cover their chains with one insurance company spread across the Community.

Improved Regulatory Framework

One of the reasons why Kenyan insurance companies have established offices in the region is because of a better regulatory regime. Every member state has insurance regulatory authority responsible for supervising insurance business. It is encouraging to note that EAC Insurance Regulators are working together to harmonise policies, legal, technical, financial and organisational structures in the sector. In the wider scope, the regional authorities are spearheading the development of insurance sector with an aim of increasing its contribution to the Gross Domestic Product. With the discovery of oil and gas in the region it is imperative for the authorities to create regional capacity to deal with risks. The problem of availability of data and lack of research can be dealt with more appropriately from regional front. Working together as a region will help member states regulators to articulate their issues better at the International Association of Insurance Supervisors (IAIS) forums.

Improved Communication and Information Technology (IT)

With improved communication and IT, Kenyan insurance companies have found it easy and cost effective to establish within the EAC member states. With improved access to mobile phones, improved connectivity, satellite communication and e-mail, insurance companies are able to engage professionals like accountants and lawyers to offer services. It is worth noting that there is East Africa Science and Technology Commission charged with the responsibility of developing technology in the region. This will assist in developing technology and by extension in running insurance offices from various member states.

Even with these developments there are a number of challenges with free movement of labour, acquisition of land, repatriation of capital, languages, social-cultural differences, legal issues and different levels of education among others, which insurance companies that establish in member states have to face and counter.

	MEMBER STATE	AIG	APA	BRITAM	ICEALION	JIBILEE	REAL	UAP	HERITAGE	FIRST ASSURANCE	PHOENIX E.A.
1.	Burundi	NO	NO	NO	NO	YES	NO	NO	NO	NO	NO
2.	Tanzania	NO	NO	NO	YES	YES	YES	NO	YES	YES	YES
3.	Uganda	YES	YES	YES	YES	YES	NO	YES	NO	NO	YES
4.	Kenya	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
5.	Rwanda	NO	NO	YES	NO	NO	NO	YES	NO	NO	YES
	TOTAL NO. OF OFFICES	2	2	3	3	4	2	3	2	2	4

Distribution of Kenyan insurance companies in the EAC

Despite the signed Protocols, majority of East Africans are not yet fully aware of the inherent benefits of the community. The politicians and the administrators are pulling in one direction and the citizens in a different one. The challenges are surmountable but deliberate efforts must be made to tap the benefits of the Common Market. Insurance sector stands to benefit from such efforts.

Birian Akwir is a Senior Manager, Association of Kenya Insurers

AFRICA RE
AFRICAN REINSURANCE CORPORATION

PRESS RELEASE

Standard & Poor's has affirmed the Financial Strength Rating and the Counterparty Credit Rating of the African Reinsurance Corporation (Africa Re) on June 22, 2012

Ratings Detail (As Of September 22, 2011)*

Ratings Details (As of June 22, 2012)

Financial Strength Rating	
Local Currency	**A - / Stable**
Counterparty Credit Rating	
Local Currency	**A - / Stable**

Ratings Rationale

Africa Re's ratings reflect Standard & Poor's Rating Services view of its strong capitalization; strong & stable operating performance and diversified competitive position across Africa.

Africa Re continues to be supported by **strong capitalization**, including a growing level of capital redundancy, which is supportive of future premium growth. On December 31, 2011, Africa Re's capital adequacy was redundant to 40% above the 'A' rating level. Its capital adequacy was boosted by a recent planned capital injection, primarily from existing shareholders. Capitalization is also supported by appropriate reserving polices and retrocession protection.

Africa Re's **operating performance remained strong and stable**. In 2011, the group improved its net combined ratio to 92%, below its already-strong five-year average. At the same time, return on revenue improved to 13% in 2011 from 9% in 2010.

Africa Re continues to enjoy a **strong competitive position in Africa**, including a market share across the continent of approximately 10% and very good diversification across the continent. S&P considers that its financial flexibility and competitive position, and thus its creditworthiness, benefit from its corporate profile and supranational status. For illustration, the corporation's **strong financial flexibility** is aided by its access to capital and emergency liquidity.

Enterprise Risk Management (ERM) within Africa Re is adequate for the risks it undertakes, reflecting a limited investment risk appetite, the predominance of short-term non-life insurance, and large capital/liquidity cushions. A dedicated risk management team, headed by a chief risk officer that reports directly to the board audit and risk committee, is well integrated into the day-to-day management of the business and supported by good reporting lines and controls. The Corporation is improving its capital modelling capabilities, moving toward a model that allows the risk management team to measure capital requirements for investment and underwriting risk, as well as structure the retrocession program. An operational risk system is also in place and staff have been educated to indentify and assess risks and controls.

About Africa Re

Africa Re is an International Financial Institution with **headquarters in Lagos** (Nigeria). Africa Re has **six Regional Offices** in Casablanca (Morocco), Nairobi (Kenya), Abidjan (Côte d'Ivoire), Port Louis (Mauritius), Cairo (Egypt), Lagos (Nigeria) for English-speaking West Africa as well as **two subsidiaries** in Johannesburg (Africa Re South Africa Ltd) and in Cairo (The African Takaful Reinsurance Company). The Corporation is owned by 41 member States of the African Union (AU), the African Development Bank (AfDB), the International Finance Corporation (IFC), the German Investment and Development Corporation (DEG), the Dutch private sector financing company (FMO), PROPARCO (subsidiary of the Agence française de développement) and about one hundred insurance and reinsurance companies. Additional information about Africa Re can be obtained at www.africa-re.com

Research and development

The effects on the insurance industry in the last decade

By Reuben Gathemia

Research mainly helps managers to make decisions that are driven by evidence from the market/ population. For the insurance industry, AKI has conducted various surveys to inform its members on where there are opportunities.

One of the researches conducted early in the last decade was on the uninsured market. It found that many Kenyans who had no insurance were also ignorant of what insurance is all about: They considered it a luxury. Also, there were issues with lack of trust and this was mainly driven by memories of the fallen Kenya National Assurance Company. Insurance sales agents were also viewed negatively. Many insurance companies have used the research to create a positive image for themselves and their agents. Also, quite a number of companies have re-branded to send a message to the market that they are dynamic and also to have brand names that are more inclusive. We have also seen an improvement in the branding practices across the industry which suggests a better understanding of the target market.

The uninsured market research also shed light on the importance of micro-insurance to target low income earners otherwise referred to as bottom of the pyramid (BOP). The BOP concept looks at the distribution of wealth and the capacity to generate incomes in the world, captured in the form of an economic pyramid. It helps understand "Where the great uninsured opportunities in the market lie." Is it at the top tier—the "Wealthy", the middle tier—the "Lower Middle Income" or the bottom of the pyramid—"BOP?" Most organisations focus on the top two ready segments since they view the low-end market as poor and not viable. The low income and informal sector market has little access to formal financial services for the management of risks, mostly due to the myth that the poor engage in various types of risk pooling and informal insurance schemes to mitigate risks. The reasons for low uptake of insurance in Kenya especially individual retirement benefits schemes are underemployment; low awareness of voluntary membership; low benefits and long maturity period. (Source: Needs Assessment Survey carried out in 2011 by SBO Research)

To target the un-insured market, the research suggested that insurance companies can use Strategic Partnerships with other influencer groups—like the trade unions—to enhance penetration. These forums can also be used for education for the various target groups; the role of the government, by giving guidelines about expectations on employers in terms of advice and support and also through segmented marketing whereby activities target niche market segments as each has special needs including information gaps. We have seen insurance companies apply different business models to target the micro market.

Another research carried out recently was on Potential for Alternative Distribution Channels. Owing to the recent technological and communication advancements, banking sector advancements and advancement in internet distribution channels, there is potential to engage the market thorough new

distribution channels. Agents and brokers though will still remain a major distribution channel due to complexity of insurance and products that require human intervention. The most suitable distribution channels identified for the Kenyan market are banks, internet / email, worksite marketing, partnering with NGOs / other community based organisations, telemarketing, virtual marketing and invisible insurer.

Viable and cost effective distribution channels are through increase of branch networks by opening branches in viable locations in major towns; use of mobile branches by taking insurance services to the people by having mobile offices on a weekly basis so as to reduce expense on time and travel to headquarters; partnerships with Microfinance Institutions / NGOs that have been successful in providing financial services to low income earners and partnerships with large supermarkets—by taking advantage of the large customer base, insurance companies can offer discounts to customers who purchase products like electronics or furniture through these supermarkets.

Other ways are through bancassurance where distribution alliances between an insurance company and a bank since banks have the advantage of a large customer base and better reputation than insurers; internet through simplification of products and posting information on company websites can result in more reach; direct Marketing / telemarketing through call centres and salaried company officers to sell directly to customers who prefer dealing with the company directly.

Bancassurance has been embraced by a few banks in Kenya such as Equity Bank, National bank and Family Bank though there is need to develop this channel further to get optimal benefits.

Use of internet has increased exponentially worldwide over the recent years penetrating daily life as the prime technology for information dissemination and communication. Research shows that in the UK, selling products online generated 40 per cent of new business in car insurance business in 2008. (Source: Business Daily January 13, 2010)

Telemarketing

This is the process of selling, promoting or soliciting a product or service over the telephone. The biggest advantage of telemarketing is that it involves human interaction that facilitates an immediate feedback mechanism as insurers access distribution networks, telephone companies gain detailed information on customers and an opportunity to increase customer loyalty.

Partnering with Community Based Organisations

This is appropriate for Micro insurance which is characterised by low premium and is accessed by the low income population. These products can be distributed by partnerships with NGOs who identify and appoint micro agents mainly within self-help groups.

Invisible Insurer

A situation whereby an insurance company or its representative is not the entity marketing the products, such that a cover is sold as an add-on product leveraging the brand of the retailer and the risk is carried by the insurance company which underwrites it—for example crop insurance for agricultural loans.

GENERALLY, INSURANCE INDUSTRY NEEDS TO BE AT THE FOREFRONT OF IMPROVING FINANCIAL LITERACY.

Virtual Marketing

This involves the use of electronic kiosk stands whereby a customer enters basic information such as name, gender, type of policy and amount to be insured and the system generates a quote with the customer having an option to approve and make a payment. This is an ideal method of selling complementary policies to existing services for example travel insurance, motor insurance, health insurance and banks selling insurance products through ATMs.

Strategies of Creation of alternative channels can be done mostly by development of simple stand-alone products that can be easily sold through other channels as current products are complex and can only be sold through conventional methods which are human driven: Education about products and services to those in the workforce to exploit worksite marketing; development of more micro insurance products sold through partnering with community based organisations; insurers can enter into distribution agreements with banks whereby banks promote insurance products of its bancassurance partners and investing in more innovation and investments in technology to take full advantage of emerging channels.

Research suggests that to effectively target the untapped pension market, insurance companies should:

Create awareness through consumer education/ information as all stakeholders and insurance companies need to actively provide consumer education as well as give individuals access to impartial and accurate information and advice.

Prioritise pension as the public need to be educated on the importance of keeping money aside for the future apart from savings.

Education of individuals that investment income earned by registered retirement benefit schemes is tax free—that is advertise on the additional benefits such as security assurance.

Strategic partnerships with key influencer groups to enhance penetration as well as forums for education for the various target groups.

Product packaging and branding whereby insurance can offer either functional, emotional or self-expressive benefits to the users—for example pension schemes can be marketed as investment portfolios as opposed to pension benefits being accrued.

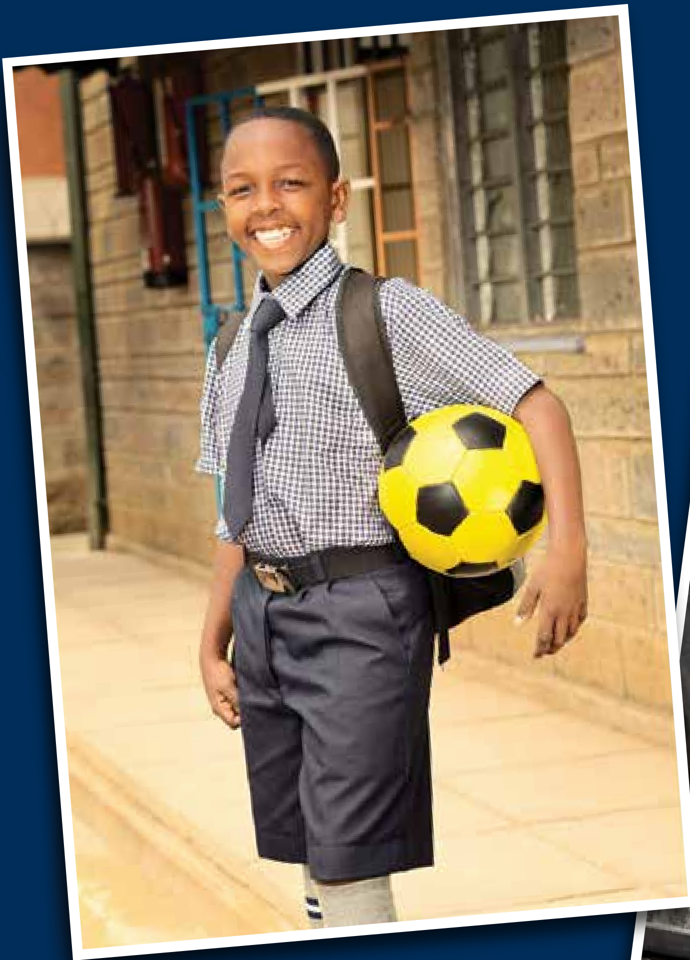
Segmented Marketing whereby marketing activities target niche market segments as each has special needs including informational gaps through service provision of innovative and competitive services all round.

Extra benefits like educational programs on pension schemes and flexibility on the regular amount of contributions to be paid for a given number of years and allowing members to participate in selection of investments of the funds.

Generally, insurance industry needs to be at the forefront of improving financial literacy.

The research on customer delight where each member company got the extent to which their customers are satisfied has been used by industry players to address customer service issues. We have seen an improvement in customer satisfaction with insurance companies compared to the past. Customers are still calling for more engagement through the new media and the industry needs to respond to this need.

Reuben Gathemia is the Managing Director at SBO Research.



Security? or Uncertainty?

Your child's future is in your hands

Like it or not, we all have to confront the realities of life. And one of those harsh realities is that life doesn't go on forever. Ask yourself this: if something happened to you unexpectedly, would your children be able to continue their education for the rosy future that you dream of for them? There's only one way to guarantee the future security of your children: for their sake talk to CfC Life today about a plan that would secure your children's future.

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ICT in the insurance industry

A review of development in the last 10years

By Leah Karobia

The manner in which information is processed from data and communication is channelled within all sectors of our economy has undergone a tremendous revolution over the last 10 years. The financial services sector has been at the forefront in adopting technology over this period. Within this sector however, the insurance industry is slower in the uptake of technology than other players such as banks, RBA, Capital Markets Authority etc. This could be attributed to the greater need for real time information for bank operations. The insurance industry has now risen to the challenge and can boast of widespread adoption of modern information and communication technology.

Back in the Day

At the start of the century, the IT industry or more specifically the software industry had just successfully navigated through the Year 2000 (Y2K) phenomenon which had been predicted to have catastrophic consequences, but was fortunately, averted. The technology landscape soon thereafter witnessed a gain in momentum of mobile telephony buoyed by more affordable calling rates and cheaper handsets with the establishment of two mobile service providers. The mode of communication for companies at the time was basically through telephones (landlines) postage stamps hence the franking machine was in heavy usage. This was the era of printers, photocopiers and fax machines. Thankfully, the telex machine was by then, already obsolete.

Similar to many large corporate entities at the time, the ICT departments of most insurance companies then known as the 'Computer Department' and headed by a 'Computer Manager', were basically data entry centres. Though most companies had by then computerised their operations, the software in use were largely stand-alone modules that required centralised processing. Operations were very manual in nature, characterised by voluminous paperwork that had to be physically delivered to the computer department for processing including all branch records. This would include but not limited to, proposal forms, renewal confirmations, claim notifications, claim service providers' documents and payment receipts. The department was responsible for producing and printing out system reports/documents such as debit notes, renewal notices and reminders, production reports and other management information. Physical visits to the computer department were called for to obtain required reports.

Local area networks were in place in a number of companies but away from the data entry department, personal computers were the preserve of a few with even fewer staff members possessing a company email address. Internal communication thus was in the form of hard copy memos to individuals or postings on a physical notice board for company-wide information.

In the interim

The 10 year period has witnessed a complete transformation in the ICT sector in the manner in which companies have adopted and incorporated technology into their operations to enhance business. The emergence of sophisticated means of communication for instance satellite communication, GPRS, fibre optic cables, undersea cables, wireless networks and others have all revolutionised flow of information giving rise to increased access to internet, email and mobile telephony. The upgrade of infrastructure to include wide area connectivity and integrated software that allowed for decentralised transaction processing saw the demise of the data entry departments and witnessed a shift towards the personal computer as the basic working tool. Electronic mail (email) became the accepted mode of internal/external communication, websites an integral part of marketing.

In the insurance industry, the computer department, renamed 'ICT Department' went through a complete evolution. The significant role of ICT in driving growth in business was recognised and accepted; any business that ignored this fact did so at its own peril. ICT departments earned their place in organisations

to become fully fledged departments, no longer relegated to a division within Finance and Administration but with direct reporting lines to the Chief Executive Officer, complete with a budget allocation. The departments were restructured to recognise the distinct though complimentary roles of infrastructure (hardware and networks) and databases (software) administration. Their main responsibility shifted from data processing to supporting and enabling business, focusing attention on areas of storage and security of information including disaster recovery management.

Basic knowledge of commonly used office applications became a pre-requisite for any office job. As staff members were empowered through increasing involvement in computerisation projects, they began to own the software processes and were in turn held responsible for the accuracy of the output from the system. Under operations, front office staff took up transaction posting of underwriting details, printing out debit notes, issuing receipts, all from the system. The claims department employees on their part post all claims related data right from notification to assessment data to providing for claim estimates, raising claim discharge vouchers and service providers payment requisitions. This greater say by staff allowed for automation of more processes such as computation of UPR (unutilised premium reserves) IBNR (incurred but not reported claims), incorporation of system-generated standard communication documents like claim discharge vouchers, assessors/garage appointment letters and assorted forwarding letters. On the overall, this translated to a shift in the calibre of staff members from mere data entry clerks to staff who have a good understanding of the business of insurance.

The costs of wide area connectivity, expected to have made significant drop with the completion of the several undersea cable projects and laying of cross–country underground fibre network, still remain prohibitive. They have hindered complete integration of operations in some companies as has proved not cost-effective to connect all sales outlets.

Presently

ICT departments have expanded to include expertise that assist the department be an integral part of the business. Now headed by Chief Information Officers, the departments are not complete without business analysts who translate new business requirements into ICT- friendly terms, project managers who manage the ICT end of several company projects that are on-going at any one time, to name but a few. With the convergence of hardware, this front has experienced a surge in usage of tablets and smart phones. Chief Executive Officers are no longer technology-challenged, they own (and know how to use) some of the latest tablets models and can access company information from any location. Cloud computing has taken root with companies opting to make savings on infrastructure spending through shared resources.

Bankers have joined the intermediary insurance market. This, while presenting new business opportunities for insurers, has called for speedy development of bancassurance software to accommodate the new business. Online systems that allow for online approvals and authorisations together with document

management systems have enabled paperless office environments with the scanner being a preferred piece of office equipment over printers/copiers/fax machines whose usage has experienced marked downsizing. Advances in communication technology have given rise to virtual offices where business can now be conducted and underwritten anywhere, so long as the connectivity is secure. Mobile money has eased costs of doing business both for the insurers and customers.

Information sharing platforms have become a necessity in undertaking insurance business to assist in fraud prevention and mitigate risks such as the IMIDS (Integrated Motor Insurance Database System) managed by AKI.

Enterprise Resource Planning software with advanced business intelligence capabilities are in place to present information in the most effective manner on dashboards. These data mining tools enable customer profiling to guide marketing ventures. Software that afford minimised human error through enhanced validity checks and alerts, quick fault recovery, ease of scalability and faster turnaround times in customer service are the norm.

The future

The future holds limitless possibilities for use of ICT in the industry and other corporates in general. A dynamic approach to issues will be a necessity to take advantage of the myriad opportunities that will continue to be afforded by gains in ICT.

For starters, the marketing channels have to undergo a complete make-over. The target market for new untapped business comprises the newly employed with insurable interests who are mainly the urban-based youth. These are very *tech-savvy* individuals whose preferred mode of communication is the mobile phone and social media. Dissemination of marketing information aimed at this target market to create awareness has to embrace this new media. Social media and mobile marketing also present an ideal platform for micro-insurance products due to its mass marketing qualities and low administration costs.

Once a comprehensive legal and regulatory frame work to handle e-commerce is in place, insurance industry players will be in a position to enhance services to customers who are now more informed and have greater expectations. 'Self-service' insurance can be activated to allow customers confirm own renewal business on-line and effect payment through the available e-commerce channels. These will be 24-hr services undertaken from the comfort of customers' homes/offices. E-receipts, e-certificates for motor certificates, e-policy documents are in turn forwarded all with minimal human intervention from the insurer. Systems that also allow brokers/agents to connect directly will achieve real time processing while cutting down on duplication of data entry.

Product and service superiority are key to winning over new business and retaining current business. Software service providers must rise to the challenge to flexibly configure systems to handle new products with an accelerated speed of deployment of solutions to support business without necessarily increasing the total cost of ownership.

Even as we move into an era of intelligent computers that will have the ability to acquire human senses, technology cannot replace humans in the work place. Subjective judgements that inform, among others ex-gratia claim payments decisions, will continue to be made by humans.

Leah Karobia is the General Manager Aimsoft Limited.

Drivers of change in insurance

Of product innovation and development in the last 10 years

By Moses Kiptoon

"The only thing constant in life is change"
(Heraclitus of Ephesus, Greek Philosopher, 535BC-475BC)

Heraclitus' words hold true to date. Over the last 10 years, the country has experienced considerable change in its economic, technological, demographic and social landscape. This trend has been accelerated by convergence, globalisation and consolidation all of which have had an impact on the pace and level of change more so within the local insurance industry.

The nature and type of insurance products sold ten years ago vary significantly from ones sold today for a variety of reasons. In his paper "Developing products which are bought not sold", K. Abercromby et al broadly classified drivers of change in insurance product development into two; proactive and reactive. He defined proactive drivers as those that originate within a company with the sole objective of creating profit maximisation, marketing edge, added value and image for the insurance company. In contrast, reactive drivers were classified as those that originate outside the company. These include overcapacity, technology, substitute products and regulation. Of course, some of these drivers have had more bearing than others but reasons for changes in product innovation and development may be a combination of either one. We will examine the drivers that have had the most significant impact within the Kenyan market:

Selected growth indicators for Kenya over the last 10 years

	2001	2011	Change
Gross Domestic Product (Nominal)	USD 12.7 billion	USD 31.4 billion	147.2%
Population	31.4 million	41.6 million	32.5%
Internet users (% of population)	1.6%	26.8%	1575.0%
Mobile phone users (% of population)	3.8%	63.2%	1563.2%
Insurance Industry Gross Premium	KES 23 billion	KES 90 billion	291.3%

Source: World Bank, IRA Annual Report

Technology

In Kenya, technology is arguably the single most important driver for insurance product innovation and development so far. Technology in itself is too broad a category and there is therefore need to break down the various components of technological improvements that are worth mentioning.

The advent of mobile money transfer mechanisms such as M-PESA and Airtel Money has somewhat transformed the life of the ordinary "mwananchi". Being able to send and receive money through a mobile phone has its benefits. It is secure, easy to use, accessible, cheap, mobile and efficient. How insurance companies have tapped this resource has led to significant improvement in the service standards within the insurance industry.The simplest of these has been premium and claim settlement for both life and general insurance companies. For example, today when premium is due, a policyholder is able to send his/her premium to an insurance company directly through an assigned business number from the comfort of his/her own home. This is a far cry from the days of having to locate a branch office or for that matter, an agent.

In this age a company without a web address is 'unheard of'. Web addresses provide cheap and flexible platform than conventional print media. Web addresses also allow businesses to break through geographical barriers and become accessible, virtually, from any country in the world by a potential customer who has internet access. Companies have developed unique products that revolve around web interfaces that provide minimal physical interaction if any. For instance, prospective policyholders are able to sign up through a "portal" therefore eliminating the need of paper based proposal forms. Premium payments through these portals are usually via credit card, mobile money transfer or other means. In some instances, prospective clients are able to receive a quote for a covered risk by filling out a number of parameters online. Others have been able to market products through chat functions available on social media. Statistics have shown that 56 per cent of the world population has subscribed to at least one form of social media.

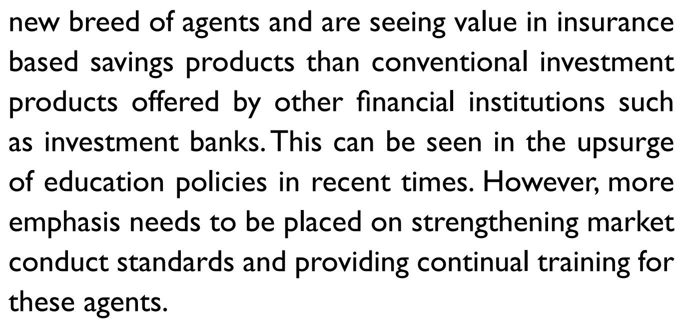
Technology, through systems has enabled insurance companies to launch products that would otherwise be impossible. For example, the emergence of unit linked products over the last 10 years has only been possible through availability of complex systems for fund accounting and computation of daily unit prices just to mention a few.

Another budding concept in recent times is that of index based weather insurance. Through partnership with the national meteorological department and donor funding, some insurance companies have been able to design agricultural insurance products whose claim payments are triggered by readings of "sophisticated" weather instruments conveniently placed across the country.

New distribution channels

The emergence and spread of bancassurance over the last 10 years has been one of the most significant developments in the retail financial services sector in Kenya. Though grappling with regulatory constraints, many banking institutions and insurance companies have found bancassurance to be an attractive and often profitable complement to their core businesses. While premiums generated through this channel are still low, there are expectations that bancassurance will grow to register a dominant share in the widening insurance market in coming years. Products sold through this channel range from basic credit insurance, home insurance, and mortgage protection to long-term savings, life and income protection products.

Over the last 10 years, there has been a deliberate move towards rebranding insurance agents as financial planners especially with the emergence of savings type of life assurance products. Prospective clients have begun to appreciate professional advice provided by this



new breed of agents and are seeing value in insurance based savings products than conventional investment products offered by other financial institutions such as investment banks. This can be seen in the upsurge of education policies in recent times. However, more emphasis needs to be placed on strengthening market conduct standards and providing continual training for these agents.

With the promulgation of a new constitution in Kenya, there is an overwhelming demand for social protection among the low income earning demography. Micro-insurance has bridged this social gap in terms of provision of insurance services to the bottom of the pyramid. As a result, both life and general insurance companies have been challenged to come up with low cost illness, injury and death covers that can be easily channelled to this group at minimal costs.

Though quite new in the Kenyan market, Takaful Insurance has sought to address the divide that exists between conventional insurance and Shariah principles that prohibits elements such as Riba (interest), Gharar (uncertainty) and Maysir (gambling).

Cultural change

As with most African countries, culture plays a significant role in the decision making process of the Kenyan individual. As a result, cultural constrains in regard to sensitive matters such as death have in the past hampered the uptake of life assurance policies where there is great reliance on the social unit for support. With growing urbanisation, this trend is changing especially with the breakdown of the traditional family units. So called 'breadwinners' are increasingly placing trust in insurance services for support in adversity. This has seen an increase in uptake of life insurance personal lines.

The government in partnership with the private sector has taken upon itself to increase the general level of awareness of the public on insurance matters. Aggressive publicity drives have been held across the country and are anticipated to positively influence the perception of insurance while emphasising it as a basic need in today's society. Further, there is evidence to suggest that there is increasing financial literacy among the Kenyan populace. This will go a long way towards improving consumer literacy on insurance.

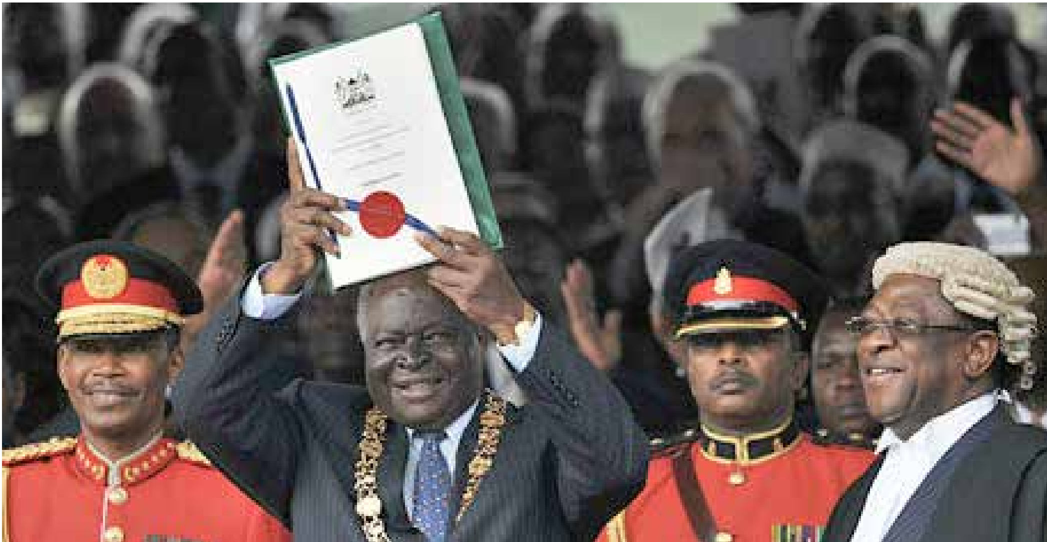
Regulation

The insurance industry does not operate in a vacuum but is subject to laws and regulations as defined by the state. In the past, regulation has been perceived to create legal barriers to the development of trade through statutory restrictions. However, over the last ten years there has been a deliberate effort by Government to review and improve insurance regulations with the aim of creating an environment that supports growth and development. As a result, companies have been encouraged to develop innovative products that ride on leeway provided within the law. For instance, through the Finance Act of 2012, Microinsurance was introduced as a class of business. This has a number of benefits which include ease of reporting for this class of business so as to provide crucial statistics that will inform critical policy decisions such as relaxation in the mode of premium payment for this class of business. Also, there is a move toward risk-based supervision which will introduce some flexibility in terms of capital requirements while creating allowance for companies to accommodate risks based on their capacity as individual financial entities. This may create some flexibility in pricing of insurance products offered by insurers.

Overall, leveraging on these drivers of change is critical to the organic growth strategies of insurance companies. However, it is important to realise that growth does not exist in isolation. The insurance industry will continue to experience numerous challenges as they innovate and develop insurance products that will meet the needs of a budding population. How they address these challenges will determine how relevant they are in future and consequently thrive.

Moses Kiptoon is an Actuarial Officer, Insurance Regulatory Authority

Disclaimer: *The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of any agency of the Kenyan government. Examples of analysis performed within this article are only examples. They should not be utilized in real-world analytics as they are based only on very limited and dated open source information. Assumptions made within the analysis are not reflective of the position of any Kenya government entity.*



Implementation of the Consititution

The case for consumer rights

By Gertrude Matata

A Consumer has been defined in the Consumer Protection Bill, 2011 as, "a person who purchases goods or services." Everyone; young or old ,rich or poor is a consumer ,those who don't buy directly have purchases made on their behalf. Consumer protection is good for business too; it is intended to curb unfair competition and to promote high quality services and products.

The insurance industry has in the last decade been sensitised on the increasing need to have regulations in place to protect the consumers. This journal, now in its tenth year, attests to the fact. In its myriad Issues, the journals articles advocating protection of consumers from unfair/abusive practices, professionalism, adherence to regulations, embracing technology to serve consumers better, judicial reforms and customer satisfaction generally abound; for example in the June 2005 issue, an article on branding by Ken Aosa ,and another by W.E. Olotch on research ,education and training, covered pretty much what article 46 envisages. It is through similar efforts by all stakeholders that laws are enacted. Continued advocacy is needed to see the Consumer Protection Bill 2011 turn into law, and to monitor the efficacy of other laws like The Competition Act Cap 504. The industry can do a lot to support ongoing judicial reforms and to get educated in other areas of Dispute Resolution like Mediation. Insurance is one of the financial services and as indicated in a research done at the behest of Kenya Financial Sector Deepening entitled " Consumer Protection Diagnostic Study" , the consumers would best be served by a coordinated approach in issuing and enforcing consistent rules.

What informs the insurance industry to pay attention to consumer demands can be summarised as follows:

a) Increasingly well informed and politicised people of Kenya. Kenya has one of Africa's most active civil societies and their rallying cry is economic empowerment.This is good for business but comes with very precise demands too.

b) Globalisation has opened the eyes of both consumers and service providers and made each wake up.

c) Liberalised market: The insurance market is now open to other players such as banks, matatu owners and medical service providers among others. The regular insurers have got to rise up to the competition and admit that they have to shape up or lose their niche.

d) Past poor performance that saw the collapse of a number of companies giving a very bad image to the industry. About nine giants have gone down. The

matatu Owners rose to the occasion and teamed up with others to resuscitate Invesco Assurance.

e) Unethical conduct engendering fraud.

- The Insurance Act Cap 487 Laws Of Kenya:

  The Act has undergone continuous amendments especially from 1992 onwards. Under Section 5 (1A), the commissioner, with approval of the minister is empowered to make regulations for giving effect to the provisions of the Act. Areas of complaint ranging from capital requirements, management of the funds and assets, premium payment rules, Shareholding/ directorship, reinsurance, claims settlement, training of brokers and agents, policies of insurance ,inspection and control have all been regulated. Nevertheless, recent reports on studies done still indicate dissatisfaction by many consumers.(Consumer Protection Diagnostic Study 2011-online)

- Summary of consumer complaints addressed by the constitutional provisions:

a) Contracts are not easy to understand

b) Lack of information on pricing and products

c) Failure to settle claims

d) Poor service standards especially from intermediaries who do not know what they are selling or deliberately mislead. What is charged is not what is offered. Both the consumers and the providers need the education.

e) Instability in the industry. Poor underwriting and claims management, coupled with constraints in the judiciary are among issues often highlighted.

Way forward

The Consumer Protection Bill, 2011 addresses most of the grievances.The pre-amble to the Bill gives clear pointers on what the intended objectives are:

"to promote a fair, accessible, and sustainable market place for consumer products and services to establish national norms and standards relating to consumer protection, to provide for improved standards of consumer information, to promote responsible consumer behaviour ,to promote consistent legislative and enforcement framework relating to consumer transactions and agreements."

Some of the most pertinent sections to insurance practitioners include:

- Section18: Right to disclosure of information in an understandable language.
- Section 19: Price disclosure.
- Section 22: Disclosure by intermediaries
- Section 24: Sets out marketing guides and 25 Prohibits bait marketing which touches on misleading advertising.
- Section 35: Highlights false, misleading or representations, even failing to correct misapprehension on the part of a consumer can amount to misrepresentation ;disclosure of material facts, and ambiguities fall here.
- Section 42 covers right to fair, just and reasonable terms and conditions.
- Section 44 covers written consumer agreements and 46 enforcement by the courts.
- Sections 47,48 & 49 deal with right to quality.
- Alternative Dispute Resolution is made a consumer right under S.63.

There are also detailed guidelines on implementation making this Act across the board regulator that may enable concerted education, implementation and monitoring.

Already in place is the Competition Act No.12 of 2010(Cap.504)Laws Of Kenya. Part of its objectives is to protect consumers from unfair and misleading market conduct. Lately, Insurance companies have opted to merge. This Act regulates the mergers to ensure they do not disadvantage the consumers.

Section 55 specifically deals with consumer welfare.

The implementation of the constitutional provisions on consumer protection is covered in the Consumer Protection Bill. Interested parties should gear up to study the pending laws that touch on the sector's operations, streamlining regulations and internal mechanisms to facilitate applicability. Laws are not static, they are amended to suit the developments in the sectors they are intended to serve.

Implementation of the Constitution is a continuous process, reforms in other sectors like the Judiciary already in implementation, public service, leadership and integrity(ethics and anti-corruption commission already in place),are all relevant to smooth operations of the Insurance Industry.

Emerging risks

Understanding the 'menace' and how to develop mitigating tools

By Kenneth Oballa

New and terrifying events are happening today. The world's population has always been faced with risks, but the difference today is that risks can now reach magnitudes of harm that had not been imagined before. They have a potential of inflicting devastating damage on the vital systems and infrastructures on which our society depends.

Emerging risks, also called global risks are large scale events or circumstances that arise from global trends; they are beyond any particular party's capacity to control; and may have impact not only on the organisation, but also on multi parties across geographic borders, industries and/or sectors .They are those large impact, hard to predict and rare events beyond the sphere of normal expectations.

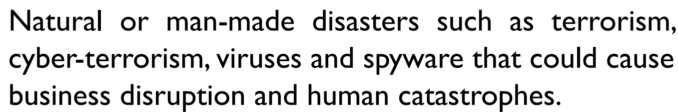
There are newly developing or changing risks which are difficult to quantify and which may have a major impact on an organisation. The risks should be investigated because of the substantial potential impact on insurance business.

Emerging risks can be caused by a number of factors ranging from new technologies to legislative changes, changes in the weather, and they may be developing or can even already exist, but not yet fully understood. However, they are likely to become significant in the near future. Other drivers of the changing risks landscape include new economic, technological, socio-political and environmental developments as well as growing interdependencies between them which can lead to an accumulation of risk. In addition, there is changing business environment to consider; liability and regulatory regimes continue to evolve, stakeholders expectations are strengthening and risks perceptions are shifting.

One characteristic of emerging risks is that they are very difficult to quantify but have a large loss potential.

Examples of emerging risks include:

Increasing natural resource constraints such as loss of fresh water reserves; depletion of oil reserves which could raise the cost of raw materials and increase in food prices, human suffering, and the pressure to identify other energy sources.



Natural or man-made disasters such as terrorism, cyber-terrorism, viruses and spyware that could cause business disruption and human catastrophes.

Increased industrial pollution and rising global carbon emissions leading to climate change that could cause a decrease in biodiversity, a shift in locations of production and consumption and resource shortages.

Rapidly shifting demographic patterns that could cause talent shortages in certain labour markets or within certain capabilities, lack of adequate skills or shifts in customer demands and or loyalties.

Rising labour costs driven in part by expanding benefits and salary expenses, which could result in lower profitability and loss of competitive advantage.

Increased volatility in asset prices and commodity markets that could cause fluctuations in cost structures that cannot readily be passed on to the consumer or otherwise absorbed.

A global liquidity crunch that could raise the cost of capital for financing transactions.

Emergence of New Technologies resulting in leapfrogging existing technologies as new applications arise.

Technology and communications disruptions such as internet downtimes or system failures which could lead to business disruptions and economic loss.

Changes in Laws and Regulations that could cause an overhaul in the manner businesses are run or affect the sources of profits.

Decline in economic growth which could negatively impact demand and put downward pressure on prices.

Political crisis which could result in nationalisation of assets, increased regulation, protectionist tendencies or other loss control mechanisms.

Pandemics and other health crises which could jeopardise the supply chain, consumers, employees and others.

Economic inequality which could exacerbate poverty and suffering and increase pressure on business to engage in humanitarian efforts.

Rise in nuclear capability which could endanger global political stability and physical security.

Terrorist threats which could reduce economic confidence or cause direct economic losses as well as loss of life, property and security.

Increased competition from emerging markets and or within the home market which could cause downward pressure on prices.

Rise in anti-globalisation sentiments and protectionism which could cause retrenchments from global trade and investment.

Increase in corruption which could create anti-competitive business practice and lead to fines and sanctions and reputation damage for perpetrators.

Decline in recognition or enforcement of intellectual property rights which could cause unlicensed commercial activity or loss of proprietary information.

Emerging risks should not be confused with special risks. Special risks have been known for a long time but still remain difficult to insure using classic forms of cover or mitigate using standard loss prevention measures. Non-physical business interruption and other forms of pure financial loss remain a great challenge but must be constantly revisited and modelled so that both the insurer and the insured are aware of their exposures to these risks when developing their risk solutions. Failure to understand and track these risks can lead to a major disaster.

Emerging risks are often referred to as the "unexpected or unknown". The speed and impact of these risks are further exacerbated by their interdependent with other risk, which requires profound understanding not only of the underlying risk factors, but also of other events that may be triggered. In a global economy, where opportunities are sought across borders and industries, risks spread equally vastly.

It is important to recognise that emerging risks can be opportunities rather than threats if they are identified, assessed and managed for competitive advantage.

Success and failure in responding to emerging risks are often the result of an organisations' rigour in applying risk management principles and their agility in adjusting to a changing environment and new challenges. To be able to effectively uncover such risks, resources need to be sensitised and focused on identifying the broad realm of potential risks including emerging risks.

To make risk-informed decisions, management should routinely analyse and track developments in its environment to identify potential exposure

through analysing of past events, and future trends. Such data may be structured or unstructured, quantitative or qualitative. In all cases, it should help elucidate unknowns and their potential impact on an organisation. Understanding the generalities of possible emerging risks events provide a starting point to monitor the symptoms of developing issues, which should be refined as further data becomes available.

The need to share information about emerging risks is vital at both the national and international levels. In fact, the pace of global socio-economic development over the past 20 years has brought about much scientific and technical progress in research and knowledge concerning risk management. The wide accessibility of the internet and other communications systems has facilitated knowledge sharing everywhere. Knowledge sharing in the development and application of new technologies identification and assessment of associated hazards and risks need to be considered and communicated at a stage before widespread application in the industry.

Assessing and establishing preventative measures for emerging risks are expected to be part of a complex process because of many diverse factors. Traditional prevention and control tools are still effective if applied correctly to well known hazards and risks such as those arising from hazardous chemicals, machinery and tools, manual handling and biological agents. However, the tools need to be complemented by strategies and tools designed to anticipate , identify, evaluate and control emerging risks arising from changes in the work environment, as well as innovative technologies.

Insurers and Reinsurers are today operating in a risk landscape that is shifting even more rapidly. Charting emerging risks and opportunities in a pre-emptive way is an important approach to risk management.

The key is to reduce uncertainty and thus help diminish the volatility of business results. While risks today are assessed largely reactively based on loss experience, a faster pace of change requires a more anticipatory approach. To achieve this, we should strive to translate risks associated with high uncertainty into a quantifiable nature.

Emerging risks however, offer the following challenges to Insurers and Reinsurers:

Many are perceived to be potentially significant, but they may not be fully understood.

DYNAMIC RISKS OCCUR DUE TO CHANGES IN THE ECONOMY THAT CAUSE FINANCIAL LOSS TO CERTAIN PEOPLE, FOR EXAMPLE RAPID CHANGES IN THE INFORMATION TECHNOLOGY INDUSTRY.

Their consequences cannot be clearly defined in monetary terms.

Conventional approaches to projecting their relative frequencies, their probability distributions over time, as well as the severity of the resulting losses and other consequences may be ineffective.

It is difficult to establish casualty between the source of the emerging risk and the consequences.

They are typically outside an organisation's control

They may be systematic; as with climate change or the ageing population.

From the descriptions above emerging risks can take the form of fundamental or dynamic nature. Fundamental risks affect a large number of people in an economy. Some of the emerging risks listed above will affect large number of people in case of occurrence. If they arise from the nature of the society for example wars and unemployment; then they are not insurable. Fundamental Risks as a result of physical or natural causes are insurable.

Dynamic risks occur due to changes in the economy that cause financial loss to certain people, for example rapid changes in the information technology industry.

The current conventional Insurance practice does not offer cover for such risks.

As has been mentioned elsewhere, emerging risks can be opportunities rather than threats. The Insurance Industry could therefore take the challenge and develop products that would provide solutions on occurrence of some if not all the risks.

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Fraud in the industry

The forms and impact in the last 10 years

By Boniface Irungu

The Fraud Act 2006 of the UK defines the offense of fraud as the defendant having been dishonest and intending to make a gain or cause a loss to another (Poll and Williams 2011:7/17). In addition, the defendant must carry out one of these acts;

- Make a false or misleading representation
- Fail to disclose to another person information which they are under a legal duty to disclose or
- Abuse trust.

Most insurance policies contain a fraud clause which basically states that all benefit under the policy will be forfeited in the event of a fraudulent claim or where the claim is in any way supported by fraudulent devices.

Forms of fraud

According to Poll and Williams (2011:7/18) most common forms of fraud are where :

- The policyholder has not suffered a genuine loss but submits a claim alleging that they have been the "victim" whereas in reality, they have destroyed the property themselves. For example, a motor policyholder submits a claim under the fire section of the policy alleging arson with the fire damage having rendered the vehicle beyond economical repairs whereas the truth is that the policyholder has set the vehicle on fire;
- A claimant (whether a policyholder or a third party) has exaggerated the extent of loss beyond the point where it is used for negotiation

- The loss is genuine but the policyholder suppresses information that could potentially result in a declinature of indemnity or avoidance of the policy
- The property (vehicle) is recovered in an undamaged condition but the policyholder fails to inform the insurers
- If the policyholder fabricated the circumstances of the loss for example, even though a genuine accident would have been covered.

In addition to the above, the Kenyan market has been rife with cases of stage managed accidents.

To put into perspective the magnitude of the problem, Poll and Williams (2011:7/20) report that the ABI (Association of British Insurers) Brief completed in July 2009 estimated that undetected general insurance claims fraud totals £1.9billion a year which adds approximately £44 to the annual costs individual policyholders face on average each year. In Kenya, it is estimated that 40 per cent of all claims payments

constitute fraudulent payments. In AKI's Insurance Industry Annual Report 2010, net incurred claims were worth Ksh.40.07 billion, 40 per cent of which is Ksh.16.02 billion which is the estimated cost of claims believed to be fraudulent.

Hodgin (1998:527) explains that the duty of observing utmost good faith, a cardinal principle of insurance, also applies at the claim stage. In the case of Manifest Shipping VS Uni Polaris Insurance Company (The Star Sea, 1997), the following points were made with regard to fraud:

When the insured makes a claim, there is a duty of utmost good faith on both the assured and the insurer

where fraud is proved in the making of a claim, the insurer is discharged from all liability.

Wedge and Handley (2000:10/2) postulate that insurance fraud can be committed by many different people including sophisticated criminals, ordinary consumers and insurance company employees. They further illustrate the incidence of fraud worldwide as follows:

Kenya's estimate of 40 per cent is therefore comparatively high.

Types of fraud

Life Insurance

Table 1.0

Country	Estimated Fraud Cost (expressed as a percentage of claims paid)
Canada	6%
USA	10%
UK	3.7%
Ireland	50%
France	6%
Germany	3%
Austria	5-10%
Spain	10%
Scandinavia	5-10%
Japan	10%
Australia	15%

Life insurance fraud may involve faking death. The various forms that fraud may take may involve taking a policy on an already dead individual or claiming that the insured is dead when such individual is alive. In other cases, an insurance policy may be taken on a nonexistent person.

Health Care Insurance

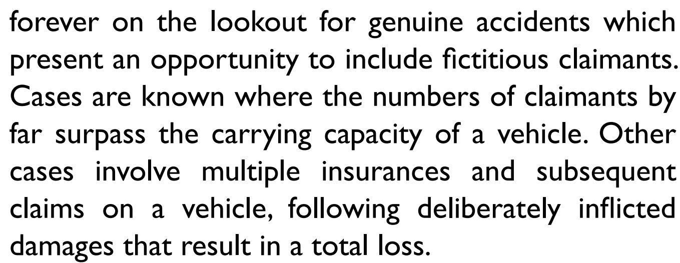
In this case, fraud can be committed by either an insured person or a Health Provider. Various forms that the fraud can take include:

- Alteration of documents to increase the claimed amount or include an excluded illness;
- concealing pre-existing medical conditions;
- failure to disclose other covers;
- falsified prescriptions;
- presenting claims for non members using insured members' details and
- presenting claims where no illness occurred in the first place.
- Health Provider fraud would include:
- Billing for services not rendered;
- billing for higher level of services;
- diagnosis for treatments that are outside the scope of the practice and
- providing services while under suspension or when license has been revoked or not issued.

Motor Insurance

Motor is the single largest class of insurance business in Kenya in premium volume and not unexpectedly, has experienced the highest level of fraud. The fraud has evolved over time from fake windscreen and music systems to sophisticated total loss of vehicles and death claims. Fraud rings or groups stage manage accidents where expensive vehicles may be written off or fake death claims lodged. In other cases, vehicles in perfect condition are undressed and fitted with damaged panels to give the impression of an accident. The sound parts are fitted back after "assessment" and a bill is raised for nonexistent repairs. To a lesser degree, a motorist may incorporate a whole range of previous minor damages in the insurance claim.

Public Service Vehicles have been the biggest casualties of fraudsters. The notorious "ambulance chasers "are



forever on the lookout for genuine accidents which present an opportunity to include fictitious claimants. Cases are known where the numbers of claimants by far surpass the carrying capacity of a vehicle. Other cases involve multiple insurances and subsequent claims on a vehicle, following deliberately inflicted damages that result in a total loss.

Property Insurance

Possible motivations for fraud in this area include obtaining payment that is worth more than the value of the property destroyed, or to destroy and subsequently receive payment for goods that could otherwise not be sold. Old and dilapidated buildings have been known to be destroyed by unexplained fires. A problem in detecting arson claims is that any evidence is destroyed in the fire.

Another common area for fraud is in All Risks types of cover. Detection is a big challenge as virtually all evidence relating to the claim is in the hands of the claimant.

Detection of fraud

Wedge and Handley (2000:10/5) indicate the following as pre-fraud indicators:

- Frequent change of insurer to avoid attention
- Uncharacteristic increase in the level of cover, for example increase third party motor cover to comprehensive
- Unclear ownership of goods may suggest the item does not exist or has been "borrowed" for claims purposes
- Financial difficulties: In Kenya cases of policyholders stage managing insured events such as fire are known after they are unable to service bank loans.
- Prevarication by insured
- Excessive pressure to settle
- Inconsistent story
- Lack of cooperation
- Poor documentation such as total lack of receipts or paperwork to substantiate purchase
- Perfect documentation where insured provides all documents required and at times even offers more than is required

Effects of fraud

Fraud has had far reaching consequences to the Kenyan economy in particular and the world in general. Many companies have been closed down under the weight of heavy fraudulent claims while others are under statutory management. Jobs have been lost after companies wind up. Many man hours are lost in investigating fraudulent claims. National resources have been diverted from more deserving cases to combat fraud. In this connection, it is commendable that the Office of the Insurance Regulatory Authority (IRA) have set up an anti fraud unit.

The great majority of honest policyholders have had their premiums increased as the claims fund is depleted by fraudsters. They also at times have to wait longer than is necessary as resources are diverted to combat fraud. Companies that have been placed under statutory management in the last 10 years and whose woes were traceable to fraudsters include United Insurance Company, Standard Assurance Company and Blue Shield Insurance Company.

In its efforts to combat fraud, the insurance industry under the umbrella of AKI has embarked on centralising policyholder's data through the Integrated Motor Insurance Data System. This will assist in tracking down those who do not mean well for the industry.

Fraud is as old as the business of insurance. It has the capacity to wipe out the strongest insurance company and therefore elaborate detection mechanisms must be crafted to ensure it is detected and stamped out. It is expected that the anti fraud office at the Insurance Regulatory Authority will take an active role in investigating and prosecuting fraudsters. The press has also got an important role to play in demonstrating that fraud is a vice that must be fought by all stakeholders.

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Retirement benefits in Kenya

The origin and development of various schemes

By Justus M. Mutiga

The retirement benefits industry in Kenya comprises of state sector and private sector. The state sector has two schemes; the Civil Service Pension Scheme and the National Social Security Fund (NSSF). The Civil Service Scheme is available to employees of the public, and is arranged on pay-as-you-go basis drawing funds from taxes. In July 2006 the government introduced contributory scheme for all new employees and allows existing employees below the age of 50 to opt to join the scheme or remain members of the old non-contributory scheme. NSSF is a national contributory provident fund that provides security in old age for those who have been in employment.

The Private Sector consists of occupational Schemes and individual Schemes. Insurers hold approximately 70 per cent of schemes but only 30 per cent of assets. The funded pension sector continues to grow and will do so for the foreseeable future as unfunded schemes like Kenya Railways Pension Scheme convert to funded defined contribution Schemes.

The Current Retirement Systems in Kenya
Kenya currently has four retirement benefits systems as shown in the table below:

How each type of scheme has developed

Scheme Type	National Social Security Fund	Public Service Pension Schemes	Occupational Schemes	Individual Schemes
Legal Structure	Act of Parliament	Act of Parliament	Established under Trust	Established under Trust
Membership	Employees in formal sector excluding Civil Service	All public service employees	Formal Sector employees in firms with a scheme	Open to all-voluntary
Funding	Funded	Non-funded	Funded	Funded
Regulation	RBA	Act of Parliament	RBA	RBA

Source: RBA Website

NSSF
The NSSF was established by an Act of Parliament in 1965 as a provident fund operating on defined contribution basis. An amendment of NSSF Act in 1997 defined it as retirement benefits scheme to be regulated by the Retirement Benefits Authority.

NSSF covers all formal sector employees other than the Civil Service employees. All employers must register with and contribute to NSSF.

The total membership as per records is estimated at three million but active contributors are about one million.

The statutory contribution to NSSF is 10 per cent of employee's pay shared equally between the employee and employer. There is a monetary Cap on maximum total contribution of Ksh.400 per month. There has been only two increases to the statutory contributions since inception of NSSF; increase from Ksh.80 to Ksh.160 in 1977 and from Ksh.160 to Ksh.400 in 2001.

Major Developments of NSSF

- There has been an increase in number of active members from 750,000 in 2003 to 1.2 million in 2011.
- The weighting of property assets and land has decreased from 78 per cent in 2000 to 31 peer cent in 2011.
- Total expenses have been higher than investment income.
- Total payments (expenses and benefit payments) have been higher than contribution income but the difference has always been covered by the investment income.
- The suspense account has been growing; it

currently stands at more than Ksh. 6.5 billion.

- The rate credited to members over the years has remained the minimum annual rate of 2.5 per cent, which falls short of what is declared by other schemes in Kenya.

Discussions with NSSF indicate progress in a number of areas including turn-around times, internal processes, computerisation and customer care. NSSF has been fighting to increase coverage through legislation from 2005 when National Social Security Trust Bill 2005 was drafted. The bill was designed to transform the fund into a national social insurance pension scheme. This bill has never become law and now we have National Social Security Pension Trust Bill 2012. Should this scheme be put in place, there will be an impact on private sector schemes. The Association of Kenya Insurers(AKI) and the Association of Retirement Benefit Schemes (ARBS) are lobbying the government to permit the employers with registered Schemes to opt out of NSSF.

Public Service Pension Scheme

The management of public service pension scheme is governed by Pensions Act and Regulations. The Scheme covers all civil servants, teachers, police and prison staff. The scheme is a defined benefit and is non-contributory other than modest contribution at two per cent of salaries by male employees towards widows' and orphans' benefits.

The scheme provides 2.5 per cent of final basic salary for each year of service on retirement from age 60. Retiring staff may opt to take 25 per cent of their pension in lump sum. The benefits vest after 10 years of service and portability is not allowed. Also, members who resign from service before retirement are not paid any benefits.

The public service pension scheme has continued to grow in membership and liabilities over the years.

Occupational Schemes

These are voluntary schemes set up by employers and are regulated by Retirement Benefits Authority (RBA). The total number of occupational schemes currently is 1,216. The total contributing membership has been growing and members are also required to subscribe to NSSF.

About 60 new occupational schemes have been established every year from 2000. The number of schemes has continued to grow although we now witness small employers favouring Individual Pension Plans.

Since the enactment of Retirement Benefits Act, the sector (occupational schemes) has experienced remarkable growth. The growth is attributed to:

- Increased member participation where schemes are supposed to have a one third (defined benefit) and a half (defined contribution) member nominated trustees;
- Increased confidence in saving for retirement due to regulation by RBA;
- Improved investment portfolio returns and

diversification as prescribed by regulators; and

- Security of scheme assets due to separation of custody and investment advice.

Individual Personal Pensions

These are schemes set up by institutional providers to serve individual members who are not covered under employer sponsored schemes. These have grown from one to23 during the last 10 years. Out of the 23 schemes, 17 are offered by insurance companies. RBA has been promoting growth of Personal Pension Plans in order to increase coverage of self-employed people. Personal Pension Plans is a growth area due to focus of market players and all stakeholders.

Retirement Fund Investments

The total retirement investments are estimated at Ksh.

The table below shows how assets have grown during the period 2001 to 2011.

	Cash & Demand Deposit	Fixed Deposit	Fixed income	Government Securities	Quoted Equity	Unquoted Equity	Offshore	Immovable Property	Guaranteed Funds	Other	Totals
2001	937.40	5,135.50	2,315.60	22,153.50	4,090.50	346.10	3,353.70	3,273.10	2,862.30	236.20	44,703.90
2002	5,995.40	3,811.10	6,973.40	35,238.70	10,860.00	1,276.50	2,875.30	41,292.90	9,152.90	4.60	117,480.80
2003	1,223.30	4,444.40	4,827.80	39,881.30	25,770.50	591.50	4,739.20	36,191.90	11,332.20	3,757.30	132,759.40
2004	1,611.90	6,404.60	4,969.60	46,859.90	22,899.50	447.00	4,667.00	35,34.70	12,846.20	3,670.40	139,610.80
2005	1,743.10	4,213.10	5,904.90	56,802.40	44,869.50	2,375.90	6,818.20	39,306.10	14,743.80	17.90	176,794.90
2006	2,831.03	4,043.58	5,370.91	65,854.56	76,191.45	2,203.21	8,885.87	40,873.11	17,517.19	248.04	224,018.95
2007	6,677.09	7,022.05	4,556.28	78,536.26	95,242.10	1,648.46	9,699.55	38,389.27	21,529.91	394.86	263,695.83
2008	4,192.12	14,163.77	7,493.46	87,560.37	85,161.74	1,775.49	6,124.08	34,933.56	26,418.28	4,460.88	272,283.75
2009	5,118.05	7,805.08	14,501.21	113,601.38	83,439.34	1,974.78	10,700.27	46,095.81	30,632.38	-	313,868.30
2010	7,296.61	16,797.81	21,044.78	143,334.51	130,296.33	2,501.83	15,346.54	50,010.89	33,257.04	982.23	420,868.57
2011	6,829.30	21,925.00	20,969.00	145,739.00	93,015.17	3,662.00	5,248.00	57,758.00	48,031.00	-	403,176.47

Source: RBA Website

403,176 million as at the end of 2011. This represents a growth of over 800 per cent from 2001 when total investments were Ksh. 44,704 million.

As can be seen in the table above, the major investments are in Government Securities, Quoted Equity, Immovable Property and Guaranteed Funds. Positive real returns and stable operating costs have led to stable growth in asset accumulation over the last 10 years.

The pensions industry has bounced from a low of 44.7 billion in 2001 it held in assets to 403.2 billion it held in 2011. This is due to a combination of factors including awareness in embracing of savings culture and economic growth. The increase of official retirement age from 55 to 60 has also helped in increasing industry reserves as retiring people have to wait much longer before they withdraw their savings.

There has been an appreciation of the role played by retirement benefits over the last 10 years. RBA has also been in the forefront of educating the public and also has regulated the sector very well providing enabling environment for growth.

The retirement benefits sector has played a major role in economic growth and development of Kenya's capital markets. The growth in retirement funds in the country has contributed to its rightful role in developing the economy over the last 10 years.

Justus Mutiga is the Chief Executive Officer of ICEA LION Life Assurance Company Limited.

Risk management in the industry

The case for Enterprise Risk Management

By Yussur Abrar

A previously held misconception has been that emerging market regions--such as Asia and Latin America--tend to be the source of global financial woes. However, the financial and sovereign debt crises in the United States and Europe demonstrated that such crises are not unique to emerging markets, and that any unregulated financial system carries with it significant risks. It also shows that global financial systems are increasingly interdependent, and that the risk of contagion is real. As a result, local regulators around the world are issuing guidelines that require financial institutions to implement risk management frameworks with the objective of identifying, mitigating, and controlling risks in an effort to minimise future shocks to the global economy as well as to harmonise regulatory requirements around the world.

In Kenya, the Insurance Regulatory Authority has come up with risk management guidelines that apply to all insurance companies and intermediaries in Kenya. These guidelines are designed to ensure that insurance companies are able to meet their obligations to their policyholders. Many insurance companies do not yet fully understand and appreciate the need for risk management frameworks; some argue that they are by nature in the risk management business, and therefore are already sufficiently prepared to respond to risks that may arise. It is important to note however, that managing other people's risks is not the same as managing your own.

To create value for shareholders, an insurance company has to sell insurance at a premium that is greater than the claims it pays. In most cases, insurance expense ratios are so high that an insurance company's revenues are augmented by investment income in order for it to generate net profits. It is therefore of paramount importance for an insurance company to identify, mitigate, and control the risks it is exposed to in order to minimise underwriting expenses and claims, protect policyholders, and generate enhanced returns for its shareholders.

All insurance cash inflows as well as cash outflows carry risks. Insurance cash inflow risks include pricing risk, credit and counterparty risk, solvency risk, operational risk, interest rate risk, reinsurance recovery risk and customer relations' risk. Insurance cash outflow risks include catastrophe risk, inflation risk, liquidity risk, capital and reserve risk, selection risk, and solvency risk. Insurance companies are also exposed to risks that other companies are exposed to including ICT and systems risk, human resources risk, investment and portfolio risk, reputation and franchise risk, legal and regulatory risk, as well as business continuity and disaster recovery risk. In addition to some of these known risks, it is the unknown risks that often blindside you when you least expect them, so companies have to pay close attention to emerging risks. For instance, as Kenyan insurance companies expand their operations across the East Africa region, these insurers are also exposed to country transfer risks such as confiscation, expropriation and nationalisation, local currency devaluation, currency inconvertibility, or non-transfer of funds.

A robust enterprise risk management (ERM) system covers the entire enterprise. It is holistic, proactive, forward looking, and an effective way to minimise unexpected losses. It involves creating and implementing a framework that provides an insurer with the ability to identify, measure, aggregate, manage and control exposures consistently. A good ERM process is one whereby the insurer regularly monitors and reviews the major risks, stays within the risk appetite and risk limits as set by the Board and Senior Management across the enterprise and has the systems, processes and procedures necessary to enforce these limits. It enables the insurer to forecast claims better and keep losses within a fixed loss band, thereby minimising surprises.

Risk management frameworks include governance, organisation structure, policies and procedures, internal communication and reporting and disclosure to regulatory and other outside stakeholders. For an ERM framework to be effective, it has to have buy-in from all levels of an organisation. This means that it has to be embedded in an organisation's culture, and this can only happen when there is commitment from the top--at the Board and Senior Management level, who ensure that a risk culture permeates the company and that all major decision-making takes risk into consideration.

The ERM process involves establishing context and speaking a common risk language across a company. It also means that an insurer has to put in place the appropriate risk management policies and procedures per business line and/ or product line as well as the related oversight structure. They should also implement--since risks are not static--a monitoring and reporting process, which mandates that the policies and procedures be reviewed periodically.

The ERM process forces an insurer to evaluate its business strategy and determine whether the risks it is taking are aligned with that strategy. Not all business lines carry the same risks. Are the returns from a particular business line commensurate with the risks that the enterprise is exposed to? By having most of its business concentrated in a particular geographic area, an unanticipated catastrophe in that geographic area might wipe out the insurer's entire capital base. The same can occur if the insurer's business is concentrated in one product line as changes in economic conditions related to that product could result in heavy losses.

As customers adapt to new technologies, companies are adapting to these changes and increasingly using technology to communicate with their customers and to market directly to them. However, the increased complexity of ICT carries additional risks. An insurer has to make sure that its ICT systems are operationally up to the challenge, that staff is adequately trained and that the network is secure.

Financial institutions are in the business of taking risks. Without risk, there is no reward. Risk management is not designed to eliminate risk, rather it is meant to understand the risks, evaluate them, ensure that they are aligned with the insurer's business strategy, and manage them. This process may force an insurer to exit a high-risk-low return product or business line, to invest more in a business that generates higher returns with lower risks, or to revisit its pricing strategy. This risk analysis will also enable an insurer to evaluate its current capitalisation and determine if its capital and reserves are adequate against the risks it is taking on. At minimum, once the insurer identifies and understands the risks it is exposed to, it will come up with risk mitigation strategies and be in a better position to control and manage those risks.

The Kenyan insurance industry is facing some challenges, but also great opportunities. Insurance penetration is low by global standards, and East Africa has some of the fastest growing economies in the world. The insurance industry will grow with the region's GDP. The industry will also grow from creating increased awareness of the need for insurance, as well as from financial inclusion policies that require more micro insurance to be offered to the low-income market segment.

A proper risk management framework should therefore be viewed as a strong value proposition and not merely as another expense item. Its ultimate goal should be to improve the insurer's business practices and processes, lay the foundation for future business growth and enhance shareholder value.

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