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Insurance that works:

What drives insurance sector development in Kenya, what are some opportunities ahead?

Preamble: Insurance is an important part of the financial sector. It supports broader economic and social well-being in developed economies, often in a way that is so entrenched and accepted that it is not widely recognized. In less developed markets, insurance can remain nascent for many years and then pick up through a dynamic development phase and reach a more mature phase. As would be expected, many actors contribute to this development. This report is part of a larger effort to understand the key drivers of development in insurance sectors in a range of jurisdictions especially including the role of policy and project interventions.

Preparation of this diagnostic report on the drivers of insurance sector development and opportunities in Kenya was led by Craig Thorburn, Lead Financial Sector Specialist in the Finance, Competitiveness, and Innovation Global Practice Group at the World Bank and Emilio Hernandez Hernandez, Senior Financial Sector Specialist, with the Consultative Group for Assistance for the Poor (CGAP). The team visited Nairobi during the week of 15 January, 2018 and January 2019 and held meetings with the Insurance Regulatory Authority, the Central Bank of Kenya, insurance companies and other stakeholders. The authors are grateful for the active engagement of all who were involved in the discussions and in support of the missions. The missions also benefitted greatly from the logistical assistance from Carolyn Odicko of the World Bank Office in Nairobi. Further follow up communications with a number of stakeholders was conducted over the months between missions.

The team was grateful for guidance and comments through the process from the Insurance Regulatory Authority, particularly Robert Kuloba and Elias Omondi, Fiona Stewart, Lead Financial Sector Specialist and Global Lead for Insurance and Pensions, colleagues at the Centre for Financial Regulation and Inclusion (Cenfri) particularly Mia Thom and Kate Rinehart, and from the Department for International Development (DfID) particularly from Ronald Bohlander. Ultimately, of course, the resulting report remains the work of the authors and does not puport to reflect all the views of reviewers.

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Insurance for Resilience and Inclusive Growth

The overall project aims to partner with countries to support the development of their insurance markets by investigating the experiences of several selected countries. It incorporates assessments of regulatory and supervisory settings against a range of international standards as well as against market circumstances to identify how these settings and contextual elements have contributed to growth and development. The analysis looks across the insurance supply chain as well as considering demand and outcome-based metrics.

The country studies are complimented by a parallel effort that includes (1) quantitative analyses of a range of wider cross-country data sets[1], and (2) a review of observance of the IAIS Insurance Core Principles (ICPs) against developmental metrics with a view to identifying priority ICPs for development.

Overall learning is distilled from the deep-dive studies to present broader conclusions in a synthesis report.

[1] The quantitative analysis of a wider range of data sets as an initiative will be published as a set of short notes and a compilation by the World Bank.

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Glossary

AYII	Area Yield Index Insurance
CMA	Capital Markets Authority
EAC	East African Community, comprising Kenya along with Burundi, Rwanda, South Sudan, Tanzania, and Uganda with its basis in a treaty that came into force in 2000 when

	Kenya, Tanzania and Uganda became the founding members. Rwanda and Burundi joined in 2007 and South Sudan joined in 2016.
ECOP	Executive Certificate of Proficiency in Insurance
GPFI	The G-20's Global Partnership for Financial Inclusion
ICP	Insurance Core Principles, established by the IAIS
IAIS	International Association of Insurance Supervisors, the Standard Setting Body for Insurance Regulation and Supervision
ICPAK	Institute of Certified Public Accountants of Kenya
IRA	Insurance Regulatory Authority
IASB	International Accounting Standards Board
KES	Kenya Shillings
KLIP	Kenya Livestock Insurance Program
KNBS	Kenya National Bureau of Statistics
MSME	Micro, small and medium enterprises, defined by the KNBS to be up organizations that employ less than 100 people, including owners, unpaid family members and paid workers
MTPL	Motor Third Party Liability Insurance
NHIF	National Hospital Insurance Fund
NDMA	National Disaster Management Authority
NSE	Nairobi Securities Exchange
NSSF	National Social Security Fund
NVDI	Normalized Difference Vegetation Index
PDNA	Post Disaster Needs Assessment
SADC	Southern African Development Community
UFAA	Unclaimed Financial Assets Authority

Currency: All amounts are in local currency unless specified. At the time of preparing the report the exchange rate was 1 USD = 102 KES

Executive Summary, Findings and Recommendations

Insurance sector development is not well understood. Many studies attribute developmental challenges to popular but unresearched beliefs. Long-standing and revered truths based on "conventional wisdom" may persist as stakeholders reinforce views despite a lack of factual evidence. "Rules of thumb" are accepted despite factual reality. Far too little is known about what makes insurance sectors develop. It is accepted by many that a more developed sector is good for many reasons, and often advocated for one of these many reasons or another[2].

This work is part of an initiative to seek to understand development better. The project also seeks to identify new opportunities that can shape the direction of growth and development of the insurance sector in Kenya.

The approach and methodology combined a deep data and literature-based review of insurance and insurance related issues in Kenya, comparisons with a wider set of jurisdictional experiences, and a series of face to face interviews with a representative sample of stakeholders in Nairobi. The work was further enhanced through contrasting reviews conducted concurrently in three other African countries and useful peer review from a range of experts with diverse perspectives and experiences.

Summary of findings

The Kenyan economy is a leader in the region. It is large, increasingly diverse, and shows a dynamic development trajectory leveraging a growing, youthful, and educated population. Agriculture plays a large role with other sectors, particularly construction, also showing a dynamism, growth and development.

The Kenyan insurance market's development has exceeded what might be expected from broader economic development alone. Since 2007, insurance penetration has increased from 2.3 to 2.6 percent of GDP in 2017 representing a *real* growth rate of close to 1.5 percent per annum[3]. Life insurance has shown stronger growth. This comfortably exceeds the benchmarked growth that would be expected after adjusting for global pricing trends.

Several critical aspects have contributed to the sector's development.

- **IRA leadership has been important** and has, to an extent, stepped in where the sector might have usually been expected to take more of a lead. Since its creation in 2007, the IRA has led in traditional regulatory and policy areas through policy and regulatory guidance and well regarded supervisory functions. In addition, it has taken many initiatives particularly to foster innovation,

[2] See Box 1 for further discussion on range of reasons why insurance can be beneficial.
[3] For further information on penetration rates see "Premium growth and development" (page 27). Some international comparisons are also shown in Table 18 on page 52.

create and increase insurance awareness, and build insurance delivery capacity especially outside Nairobi;

- **Composites that were separated have outperformed**, particularly growing their life insurance business. Even though the sector is yet to fully realize its role in institutional investment, the fact that life insurance builds assets more so than non-life insurance means that the sector's potential to play a greater investment role has benefitted from the policy not to allow new composites and to facilitate the separation of those that wished to do so voluntarily. The experience in Kenya is that composites that reorganized into separate life and non-life insurers within a corporate group outperformed those that remained as composite entities. If it were the only motivation, the evidence that splitting composites supports the sector's investment role is potentially relevant to other jurisdictions[4].
- **Regional leadership and regionalization has been a benefit** for the sector. The opportunity to take a more regional perspective, considering their business on the basis of operations in several countries, has allowed the sector to develop both technically and economically, mitigating the effects of some of the challenges that it faces, particularly the constraining effects of price competition locally.
- **The insurance law is fairly comprehensive and the IRA is an active and capable supervisory agency** especially when considering the level of development of the sector.

But the sector confronts challenges. The diagnosis is that these challenges find their root cause in **constraints to innovation largely as a result of limitations on resources, somewhat tied to high levels of competition and consequent poor profitability**.

- The sector is facing **challenges that can be attributed to the effects of very intense competition** for existing business that have persisted over the last decade. The current competitive settings constrain profitability and absorb management time. A focus on a quest for market share leads to an ever more intense succession of irrational price wars and limits investment in new approaches that would be needed to break out of the cycle. Regionalization has given some smaller players the option to continue in the domestic market despite the competitive conditions;
- **Non-life insurers are far more engaged in the commercial market** than the retail market, highlighting a significant opportunity for expansion in the underserved domestic retail sector beyond medical and, to some extent, motor products.
- **There is a significant underserved group outside Nairobi** that is not well understood by insurers. Much of the effort to reach new customers has been undertaken by the IRA rather than by insurers.
- **Innovation and investigation has been limited. It is widely recognized that "doing things differently" is needed** to reach underserved clients and deliver relevant services and products. But few insurers have invested in innovations to date and another small group have intentions but less concrete plans. Studies do exist to better understand underserved clients with very substantial information on conditions and needs for these customers. These studies point to insurance opportunities but have not been presented in an accessible way for insurers. Insurers

[4] This issue is investigated more fully in a separate cross-country research note based on a larger experience of many jurisdictions.

also have not been very engaged in taking studies and distilling "insurance specific" actionable learning. Similarly, agricultural insurance has been scaling up but is still in its infancy, and there has been surprisingly limited digital insurance development contrasted with other digital take-up for financial and non-financial services; and

- **Insurers invest conservatively and do not play as active a role as they could in long term finance** beyond property development. Investment skills are limited in other areas and there is little motivation to develop them as the asset mix does not require them. More complex asset approaches are not seen as relevant and the supply of suitably packaged assets has been limited.

Recommendations

But more can be done so that the insurance sector takes advantage of a new phase. These proposals have four areas of focus and have been developed with a view to leveraging opportunities. This approach contrasts with alternatives that would be more defensive and would discourage investing in innovation, professionalism and growth[5]. There is, of course, some overlap and interrelationship between the four areas of activity.

1. **Innovation**: To get closer to its potential in every dimension, things must be done differently. Some changes at the cutting edge of developments globally would appear to be able to be adapted to the Kenyan market. These range through "InsureTech" type innovations that range from telematics and similar applications improving motor insurance performance, to new agricultural product and service opportunities, catching up on mobile insurance, and leveraging digital platforms to enhance customer engagement. Others will be less high tech including making greater use of alternative distribution channels, adjusting products to meet the needs of underserved clients, or making alternative asset classes available to more insurers through some limited financial engineering.

   The challenge is to embed more innovation into the operations and strategies of insurers and their current or potential partners. Currently, innovation is recognized but actual projects are not as widespread as they need to be. Through a combination of initiatives directly with respect to innovation and indirectly to address industry settings, the ultimate aim is to see a more invigorated and actively engaged insurance sector where the current recognition of the need to

[5] Some advocates argued that official prescriptions on how managers should run insurers would be prescribed rather than allowing insurance managers to properly manage. Rather than step back to a rules-based system, we believe that insurance managers, with some well-placed assistance and the right incentives, should be given a chance to be part of a positive solution. During the missions, those advocating (re)introducing price-based rules were not unanimously of the view that insurance management is sufficiently competent across the board. We believe that they are more able to manage the problems that they face without resorting to the IRA and government managing it for them, or that they will be in the near term.

innovate is converted into more actual new activities[6].

2. **Customer inclusion, service and protection**: Taking engagement with underserved customers to a new level is needed to enhance consumer experiences through better information, product and service delivery. Sector expansion to underserved markets in Kenya will help rebalance competition settings from a negative dynamic that relies on poaching existing clients and distribution from competitors. Initiatives in this area can include reinterpretation and dissemination of existing research to provide directed insurance oriented input[7], further field work to enhance and update research conducted as a collective public good, reinvigorating the IRA efforts in consumer education and insurance literacy including adopting new field iterative approaches to enhance communication materials, applying the same to consumer experience research including engagement with insurers regarding their effective content, form, and delivery mechanisms of information[8].

3. **Regionalization**: The regionalization of the insurance sector in the EAC and beyond is a current reality that can be embraced and deepened. Considering the regional nature of the market and finding ways to make it more efficient will mean that the "competition imperatives" should be viewed more positively than treating each jurisdictional market in isolation. The IRA can lead an initiative through supervisory colleges in particular[9].

4. **Continuing to develop a risk-based approach to supervision**: Through proportionate and risk-based regulation and supervision, the IRA continues to encourage innovation, professionalism, measured risk-taking, and flexibility. At the same time, leveraging RegTech of consumer protection noted above, industry and financial analysis-based interventions, managing RBC transitions, developing refined internal EWS systems, and enhancing non-financial dimensions will all help build overall professionalism and leveraging natural pressures from new shareholders, distributors and clients. This initiative will also contribute a role for supervisory activities that normalize sector performance.

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[6] Initiatives include establishing an innovation management group at the IRA that provides a focus to innovation including hosting knowledge seminars, facilitating innovation knowledge sharing from other jurisdictions, overseeing a "challenge fund" and "innovation competitions" to encourage and engage sector participants bilaterally, disseminating and looking to action findings of the consumer research stream particularly regarding product and service delivery innovations. This groups should also handle processes for pilots and sandboxing.
[7] The obvious starting point would be to review the information in the financial diaries with respect to health incidents and responses and the potential gaps for insurance to seek to resolve.
[8] An initial focus of this stream of activity should cover both conventional and micro insurance type clients albeit that differences would be expected. Suggested options for specific or targeted review include mobile insurance clients and other micro clients in the tea project.
[9] Items to focus on for "quick wins" would include publishing and discussing a mapping of inter-relationships across the region, providing leadership for specific harmonization initiatives, assessing solvency for regional groups for supervisory college purposes, other functioning of supervisory colleges, treatment of internal transactions such as reinsurance and internal service contracts across borders within groups, barriers and opportunities when delivering insurance solutions to regional real economy players such as mapping taxes etc.

For more detailed and specific actions see page 60 “Moving forward: Findings and recommendations”.

Introduction

Insurance sector development is not well understood. Many studies attribute developmental challenges to popular but unresearched beliefs. Long-standing and revered truths based on "conventional wisdom" may persist as stakeholders reinforce views despite a lack of factual evidence. "Rules of thumb" are accepted despite factual reality. Far too little is known about what makes insurance sectors develop.

Insurance is important but is less recognized in debates and policy considerations. Non-practitioners who step into the insurance realm quickly find it is filled with its own complexity, detail and language. It is a subject area given relatively less coverage in undergraduate and graduate finance programs. Combined, this makes it problematic for policymakers coming to the area for the first time.

It is, however, accepted that a more developed sector is good for many reasons (see Box 1). Some argue that insurance is useful for poverty reduction focusing directly on those who need a functional coping mechanism when adverse events occur. At the other extreme, the broad macro level benefits may be extolled in terms of facilitating economic activity. Whether it be resilience to adversity at the individual level or at the level of the sovereign, insurance can play an important role. Equally, in the absence of a claim event, insurance also plays an important role in economic transactions, credit facilitation and levels of risk management.

Box 1: Four ways insurance helps

How does insurance help attack poverty and advance development goals?[10]

1. **Insurance helps when bad things happen**: Most obviously, and most often considered, when an adverse event occurs that impacts on a person's financial well-being then it can be devastating. These events often come with physical and social pain as well. People can be thrust into poverty or see their existing level of poverty intensify. Insurance can provide an injection of funds or assets that greatly reduce if not totally alleviate the risk of poverty in such situations and help to shorten the time recovering even beyond the benefit of the financial support.

2. **Insurance reduces poverty beyond the injured party**: Without insurance, people look to other 'coping mechanisms' to rebalance their lives. These mechanisms can vary to increasing income to reducing consumption. Strategies might be useful such as planting more crops, or more counterproductive such as selling income producing assets, borrowing at extortionate rates, reducing meals, deferring medical treatment or taking children out of school so they can work. Through counterproductive measures, the adverse event transmits from the individual to their family and across generations.

[10] For a fuller review of insurance and development linkages see Lester (2014) for example and other resources in its extensive bibliography.

3. **Insurance reduces poverty even without a claim**: Although the most usual thoughts about insurance and poverty focus on claim events, it is not necessary to have a claim to benefit from insurance and many of us buy insurance with the intention of not making a claim. Insurance may be part of a broader goal; for example, purchased with a loan to facilitate access to credit[11]. By transferring risk to an insurer, individuals, households and businesses can concentrate on their productive expertise rather than sub-optimal diversification strategies increasing their income and productivity[12].

4. **Insurance reduces poverty even without an insurance policy**: A well-functioning and developed insurance sector presents many benefits that extend well beyond those that accrue to policy owners. These benefits include the effects of acting as a provider of capital and investment, trade facilitation, and enhanced management of risk[13]. These benefits flow to the broader economy and whole population.

Source: Author's summary

Insurance is often advocated for one of these many reasons or another rather than all of them depending on the motivation of the advocates.

Others advocate a set of approaches in terms of theories of change. "Theories of change", being a description or illustration of how and why a desired change is expected to happen, have been advocated by Cenfri under the headings of "Household Resilience", "Business Resilience" and "Capital Market Development" (see Box 2). Such approaches can provide a useful alternative window to categorizing effects and outcomes when investigating experiences. A range of allocations of categorizations can often be subject to discussion.

Box 2: Three Theories of Change

To provide three lenses to view the change in insurance sector development, Chamberlain et al 2017 set out the following:

1. Household Resilience: with sub-channels of 'risk transfer', 'productive risk taking', peace of mind', and 'access to critical services'.
2. Business Resilience: with sub-channels of 'risk transfer', 'risk management', and 'credit market development'. Further subsidiary to these are 'industry growth', 'facilitating foreign direct investment', 'infrastructure investment', 'trade', and, particularly regarding credit, 'protection against default', and 'risk pricing'.

[11] Although this is a common feature of borrowing for many people in developed countries, many papers written about the absence of access to credit for the poor in developing countries are blind to insurance as a key element advocating other complex policy and infrastructural interventions which may be necessary but not sufficient. For further discussion of this topic see the section in Lester (2014) or citations from Karlan et al (2012), or De Bock and Ontiveros (2013) as some of several examples.
[12] This productivity benefit has been most usually elaborated in development literature with respect to agriculture, including but not always helping to provide access to credit for smallholder farmers linked to deploying more productive farm inputs.
[13] By putting a price on risk, insurance creates an incentive structure for risk management that flows through to better outcomes in the face of risk in many areas of economic and social activity.

3. Capital Market Development: recognizing 'mobilising', 'pooling' and 'allocating' capital and 'building institutions'.

All of these are then ascribed to growth and poverty reduction.

This report takes a broad view of the benefits of insurance and looks to investigate the presence or gains. It takes a broad view regarding causal linkages. It recognizes that interventions and actions can have many areas where impacts can be seen and that these areas might appear somewhat unrelated to each other. It is somewhat agnostic to any particular categorization of results or absence of them, but rather looks to see where and how change has taken place in the particular market. At the same time, these categorisations have been used to motivate the investigation of performance.

Insurance development is positive for policyholders but also for the broader population and wider economy, including people who have no insurance at all. Many studies concentrate on an insurance market that is more developed if premium to GDP is larger, and more inclusive if more people have insurance policies[14]. Other development measures focus on size[15]. This study does look at these measures but also measures of other outcomes of wellbeing where these can be identified. Financial inclusion, including inclusive insurance, is also regularly promoted as important for development.

This study seeks to investigate the influences that may have led to outperformance or underperformance. What led to outperformance? Did policy interventions cause a change? Were donor engagements a contributing factor? Were specifically initiated regulatory reforms influential? Or did they create limited or even negative conditions off-set by other naturally occurring beneficial circumstances? Would it have all happened despite these interventions? Where some factors are identified that played a role, can the lessons be considered to be country specific or replicable as lessons for others?

Market context is critical to understanding the insurance sector situation, its development, and the directions that should be taken. The study starts from the presumption that there is no single correct path to development. The IAIS recognizes this paradigm in the introduction to the ICPs, for example, noting that "supervisors need to tailor supervisory requirements and actions so that they are commensurate with the risks posed by individual insurers as well as the potential risks posed by insurers to the insurance sector of the financial system as a whole". Further, "it is important to take into account the domestic context, industry structure and developmental phase of the financial system and overall macroeconomic conditions" and "there is no mandated method of implementation"[16]. There is a critical

[14] Bank centric financial inclusion measures tend to count bank accounts and express them as a percentage of the population or of the population over a certain age, often ignoring complications such as multiple accounts per person or accounts held by commercial entities. The discussion on insurance data sometimes gets bogged down in counting multiple or commercial contracts well before actually performing the calculation and, instead, seeks to find data based on surveys or other sources to estimate numbers of insured persons.

[15] de la Torre et al (2017) also make this point with respect to financial sector development more generally often being focused on the single metric of credit to GDP whilst pointing out that it is a measure that fails to reflect the multidimensional nature of financial sector development and its contribution to broader economic development and well-being.

[16] IAIS ICP Introduction paragraph 8 and paragraph 17 for example.

need to base policy prescriptions in a well-founded understanding of local market contexts even though broad and general principles may be relevant. As a result, although data is examined and cross-country comparatives are useful, they are ***instructive but not conclusive***.

The study examines a range of data sets to develop the analytical basis for the review, conclusions and recommendations. Insurance development is driven by a large range of factors, some of which can be better observed than others. Data is important but understanding what it means is also important. Benchmarking results, including cross country analysis and other research to understand the meaning of calculated values, is one element that is under-represented in industry analysis[17]. Demand and potential demand for insurance are also considered considering the nature and level of risk being faced as the basis for the examination of insurance markets effectively assuming individuals and entities should and would take out insurance if they were offered it against these risks[18]. Other dimensions examine perceptions of risk, insurance as a solution, and then other barriers to access that may limit the extent that a risk that can be insured coverts into a risk that is insured. In this section, we approach both a range of potential risks and their trends along with data about clients.

Through the report, elements of the regulatory and supervisory arrangements are addressed as they are relevant. For those that are not specifically raised in these sections, a further section covers the remaining review of regulatory arrangements as needed.

The diagnostic review has also been conducted through an extensive set of fact-finding stakeholder meetings to gather input, validate and supplement the data-based analysis.

The report seeks to bring forward proportionate policy responses. Market circumstances, complexity or otherwise in many dimensions, inclusion, etc. all advocate for proportionality and customized recommendations. Country and market specific solutions need to be elaborated for the time and circumstances to be most relevant. These conclusions and recommendations are summarized above and elaborated more fully in the final section of the report.

Country Context and Risk

This chapter examines the country economic context and the nature of risk with a view to distilling trends that are useful in explaining the performance of the insurance sector and the potential for growth and development. The chapter focusses on key risk areas and how they are changing over time. It also looks at what we might know about customers and potential customers in Kenya especially about their attitudes and use of insurance and alternative risk management mechanisms.

[17] Often insurance sector metrics are interpreted against commonly held views of what is "normal" even when such normality is difficult to observe from available data. To avoid this risk, the conclusions of this work are firmly based on data set comparatives.
[18] In the field of Financial Inclusion, there is a considerable focus on the metric of bank accounts per person and its use as a measure of the number of people who are "unbanked" with an often implicit conclusion that all people should have a formal bank account.

Economic Context

The Kenyan economy is large and diverse, and becoming more so. It is the largest in the EAC grouping in terms of GDP and has the highest GDP per capita. Over the last decade, a continued reform agenda has helped to secure sustained economic growth and development gains. For most of the recent years, GDP exceeded 5.5% per annum. During 2017, some softness was associated with uncertainty during the election period but this is expected to be a transient effect.

Table 1: Kenya's GDP Compared

	GDP in USD millions	World Ranking	Population millions	GDP per capita in USD	World Ranking	Agriculture as a percent of total GDP
Kenya	74,938	71	49.70[19]	1,508	141	33.30
Sub-Saharan Africa (IDA and IBRD Countries)	Total 1,648,714	Average	Total	1,554	Average	
EAC Members	Total 168,438	Average 112	Total 185.51	861	Average 161	
Burundi	3,478	160	10.86	320	178	36.36
Rwanda	9,137	141	12.21	748	162	30.96
Tanzania	52,090	84	57.31	936	157	30.13
Uganda	25,891	105	42.86	604	167	24.90
Others						
Sudan	95,778	63	40.53	2,898	126	30.45
Ethiopia	80,561	69	104.96	768	165	34.12
Somalia	7,369		14.74			
South Africa	349,419	37	56.72	6,161	95	2.29
Angola	124,209	61	29.78	4,170	110	
Egypt	235,369	42	97.55	2,413	124	11.49
Ghana	47,330		28.83	1,641		17.02
Nigeria	375,771	28	190.88	1,969	128	20.85

Source: World Bank, World Development Indicators, Staff Analysis. Note World Rankings for country groups are shown as the average for all members of that country grouping

Price inflation has risen through 2017, in part attributed to the impact of drought on food prices, particularly fruit and vegetables. More recently, concerns about utility process have also become an issue. Price inflation has been regressive in recent experience[20].

Growth and inflation are similar in Kenya to the EAC group and outperform SADC. Both GDP and inflation have been similar over time for the four largest economies in the EAC and have been favorable when compared to the rest of Africa. Kenya and the EAC collectively have seen persistent 5 percent GDP

[19] Note that the KNBS estimate for the population that has been published most recently is 46.6 millions for 2017 (Refer KNBS (2018))

[20] Refer KNBS (2018) that notes inflation by income group is higher in Nairobi for lower income than higher income groups; for example in 2017 at 8.6 percent for lower income groups and 3.4 percent for higher income groups (REFER TABLE 3.19).

growth compared to 1.5 per cent to 2.5 percent for SADC during the last four years. Inflation in SADC has been close to twice that of the EAC and in Kenya.

Table 2: Economic Indicators and their Trends

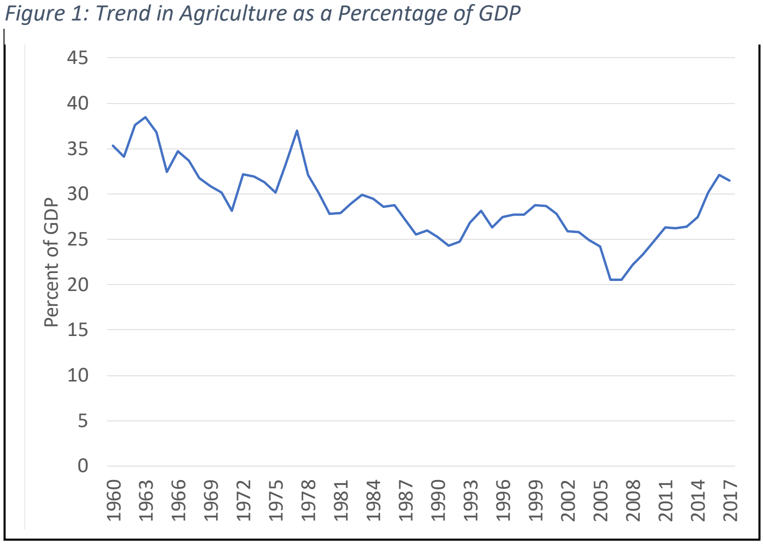
	2011	2012	2013	2014	2015	2016	2017
Growth in GDP at constant prices (percent)	6.1%	4.5%	5.9%	5.4%	5.7%	5.9%	4.9%
GDP at market prices	3,725.9	4,261.2	4,745.1	5,402.6	6,284.2	7,194.1	7,749.4
Trade balance	-788	-857	-911	-1,081	-997	-854	-1,131
Total domestic credit	1,532	1,768	1,979	2,312	2,794	2,973	3,198
Balance of payments (current account balance)	-340	-360	-417	-561	-421	-375	-519
Manufacturing output	1,581	1,620	1,738	1,820	1,977	2,121	2,205
Construction output	437	513	583	683	804	824	1,032
Wage employment ('000 people)	2,084	2,156	2,283	2,370	2,478	2,554	2,657
Informal sector ('000 people estimated)			11,150	11,846	12,562	13,310	14,098
Consumer price index						6.33%	7.96%
Annual Average Inflation		9.4%	5.7%	6.9%	6.6%	6.3%	
Employment							
Earnings							

Source: KNBS, Amounts in KES Billions unless noted

Some areas of strength in the economy are well aligned with potential increased insurance utilization. Table 2 includes some indicators of economic activity that would increase the demand for or need for insurance. For example, manufacturing output has grown at an annual compound rate of 5.7 percent and construction at 15.4 percent over the six-year period shown. Construction activity is also relevant to the investment profile of insurers discussed elsewhere in this report.

Like other economies in the region, a large part of the economy engaged in agriculture. The region has several natural advantages that have seen agriculture continue to be important despite a growing expertise in other economic sectors. Efforts to address insurance needs have been getting increased attention[21].

Figure 1: Trend in Agriculture as a Percentage of GDP



Employment remains largely informal, and the economy is becoming more and more sophisticated adding value to services. There is one formal employee for every seven informal employees. Wage employment has grown by a compound annual rate of 4.1 percent, whilst informal

[21] See also below page 37, "**Error! Reference source not found.**".

employment has grown at 6.0%. At the same time, it is notable that the service and IT related sectors are showing stronger growth and point to an increasingly sophisticated economy on the back of higher skills, leveraging an increasingly educated population[22]; education, health and information technology all being leading growth sectors. Services have shown the most rapid wage growth in the last year and five years.

With a population around 47 million people[23], Kenya is a relatively large and dynamic country with rapidly improving population statistics. It has a small percentage of the population above 65 making it relatively young. The percentage of the population aged 65 and over is one of the lowest in the world and half the average level of middle income countries. Life expectancy is well above the average for Sub-Saharan Africa and is rapidly increasing. The crude death rate has also been showing strong improvement and stands at 5.7 per thousand population compared to 9.7 a decade ago and 9.2 currently as the average for Sub-Saharan Africa. The total fertility rate stands at 3.5 births per woman and has been decreasing over time, for example it was at 4.8 just 10 years ago, and also is well below the average African rate of 4.9 per woman.

Table 3: Population Trends and Indicators

	2011	2012	2013	2014	2015	2016	2017
Population millions	39.5	40.7	41.8	43.0	44.2	45.4	46.6
Population (AXCO)[24]	41.42	42.54	43.69	44.86	46.05	47.25	
Age < 15						18.63 41.0%	
Age 15-64						24.96 55.0%	
Age 65 and above						1.74 3.8%	
Education – Primary enrollment ('000 people)	9,561	9,758	9,858	9,951	10,091	10,280	10,404
Education – Secondary enrollment ('000 people)	1,768	1,915	2,104	2,332	2,559	2,721	2,831
Education – University enrollment ('000 people)	219	251	361	444	511	565	521
Life Expectancy at Birth – Male (World Bank)	61.90	62.68	63.33	63.86	64.29	64.63	

Source: KNBS unless shown. Note that percentages shown do not include a small proportion that do not have age information available.

In general terms, technical skills are in good supply, facilitating business, innovation and diversity of undertaking. Education standards are high with increasing school retention and progress to tertiary

[22] Tertiary education has been becoming more inclusive as the number of student loan applications, for example, has recently been growing at close to 25 percent (Source: KNBS)
[23] Source: KNBS (2018).
[24] Note that AXCO reported populations are based on mid-year estimates.

studies. There is an active resident actuarial profession that serves both Kenya and insurers in other countries in the region and includes 24 internationally recognized fully qualified actuaries and a further cohort of actuaries progressing through the actuarial examinations. Adult literacy levels are good at around 80 percent overall.

Low levels of formal employment compared to informal and self- employed contributes to savings and retirement fund participation. Almost 90 percent of new jobs created in 2017 were informal. Wage employment in the private sector accounts for close to 2 million people and is 70 percent formal[25]. A further 790,000 are employed in the public sector. KNBS reports that over 14.1 million people are informally employed including the self-employed.

More recently, **savings rates have been falling**. National savings in 2017 stood at 10.26 percent of GDP compared to rates above 16 percent ten years ago. A relatively small percentage of the population is covered by the National Social Security Fund (NSSF) with just under 4 million members. In fact, according to the KNBS, membership numbers have fallen slightly in the last five years from 3.95 million to 3.90 million, albeit that contributions have increased from 6.6 billion KES to 9.5 billion KES over the same period (2013 to 2017).

From an insurance perspective, the factors combine to suggest a relatively lower demand and priority for long term retirement savings in the minds of many Kenyans, and a relatively lower opportunity to build the life insurer's role in harnessing those savings toward institutional investment.

Development of MSMEs

MSMEs in Kenya play a significant role in job creation and economic contributions. Employment contributions from MSMEs is very material. Around 1/3rd of the population gains a livelihood directly from the MSME sector. A 2016, World Bank supported survey by the KNBS investigated MSME development in Kenya. Just under 15 million people gain some or all of their livelihood from these 6.4 million organisations with 80 percent employed in micro entities employing less than 10 employees. Almost 60 percent of the entities are informal meaning that they are not subject to either national or county level licensing. After startup, employment growth in the segment is also strong. The contribution to GDP is also estimated to be around 1/3rd of the total.

MSMEs are transformational for agendas that support women. Less than half the formal entities are solely owned by men and an astonishing 61 percent of informal entities are owned by women alone. There is also a significant proportion of formal and informal entities with joint ownership by gender. Employment in MSMEs at inception is weighted toward women with males making up only 34 percent of employees but this changes as businesses grow over time although it continues that only 43 percent of those employed by all MSMEs are male.

Enterprises are predominantly engaged in wholesale and retail services, motor vehicle repair, accommodation and food services. The predominant client base for the sector are individual consumers. Many food service entities are small bars, hotel kiosks, and local restaurants. Manufacturing

[25] Source KNBS (2018)

is also focused on food including milling, and in clothing. Over half the MSMEs use mobile money to make payments and also to receive cash and just under 30 percent have a mobile money paybill number to accept payments.

Just over five percent of businesses start with formal financing, the majority of which comes from banks. Own funds and family lending plays the most significant part in providing funds for businesses. Banks have been given incentives to focus on providing finance and have recently reported that over 90 percent of applications made are successful with 92 percent of loans being advanced to informal entities by banks. The vast majority of entities have bank accounts for the business, primarily with commercial banks.

The MSME sector reports that it is constrained and could do more. Constraints include those that come through competition, regulatory burdens including duplicative registration processes, lack of capital, and high costs of financing. Businesses that closed did so largely do to a lack of operating funds. Business closures also include gender-based responses such as the need to attend to personal and social obligations, including prenatal and postnatal care of children. Credit issues are, however, relatively low given that many entities suggest that they are not interested in accessing credit or do not apply for loans based on their perceived views on credit.

Successive development plans of governments have sought to support MSMEs. It has been argued that the most current plan, to develop the economy toward 2030, also depends heavily on the prosperity of the sector. The Private Sector Development Plan (PSDP) explicitly notes the need to facilitate competition and the role of graduating small entities into larger enterprises is important. Vision 2030 includes very tangible initiatives directed at the sector.

However, despite this promise and official priority support, insurers play no material part in financing or providing insurance to these organisations. Some 871 entities were officially recorded as providing insurance related services in the KNBS survey and 98 percent of those had less than 5 employees, and owners of these entities tended to have a lower education level than most other sectors. No other material contributions were noted. Although trivial of itself, **cloud funding for MSMEs is four times larger than insurance company lending and investing**.

There is a clear missed opportunity for insurers to become more engaged in MSMEs (see Moving forward: Findings and recommendations on page 60 for recommendations in this area).

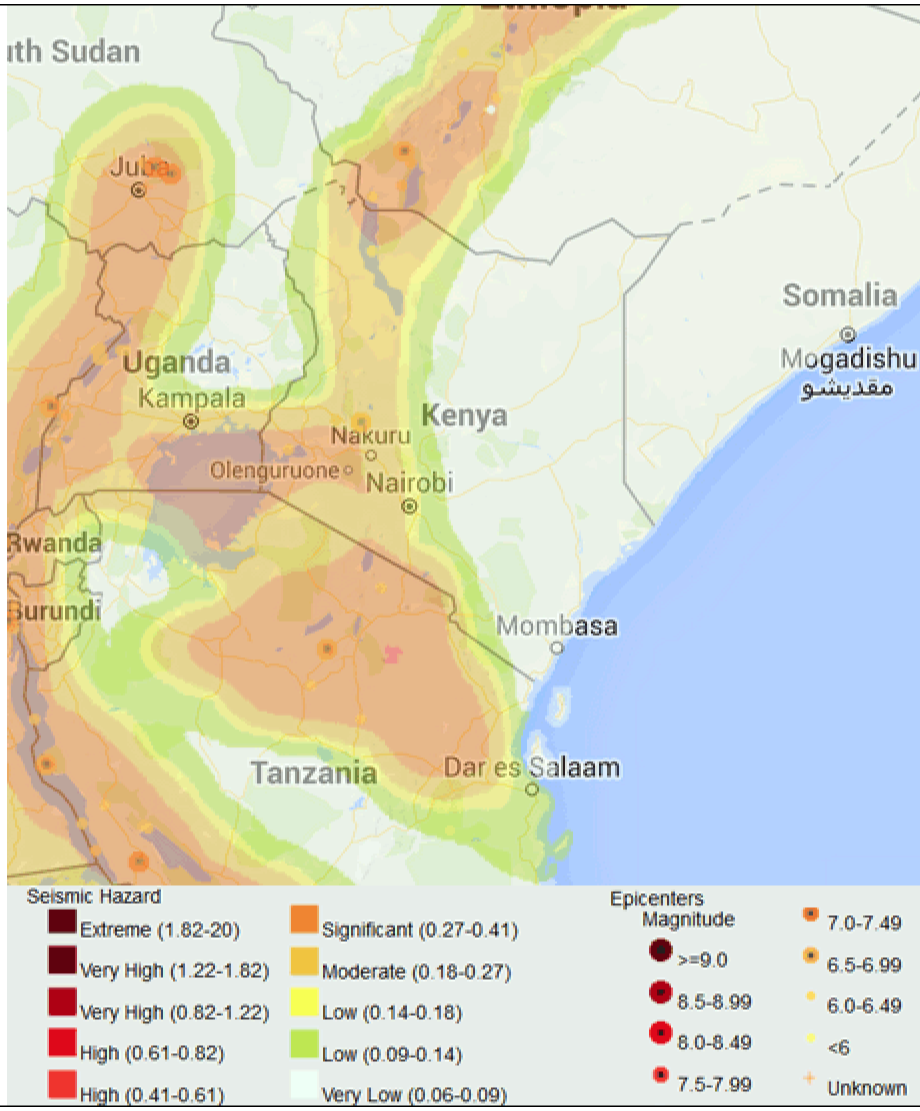
Natural catastrophes

Kenya is exposed to earthquake and volcanic risks although these are generally considered to be limited based on recent experience. The proximity to the East Africa Rift system has raised interest in the potential for seismic activity. There are 24 volcanoes of which six are not deemed to be officially extinct although it is close to a century since the last eruption[26]. Recent earthquakes felt in Kenya have

[26] AXCO reports the last eruption in 1921.

been centered in Northern Tanzania or the Indian Ocean in addition to those that have occurred within the country's borders.

Figure 2: Seismic Risk Map



Source: Swiss Re Catnet and AXCO

The drought experience is material in frequency and severity. The 2014-2017 drought has affected half the counties in the country brought food shortages, increased food insecurity, increased levels of malnutrition, the virtual elimination of some agricultural production compared to their long-term average, and reduced school attendance[27]. The earlier 2008-2011 drought caused large scale needs for

[27] Source: https://reliefweb.int/disaster/dr-2014-000131-ken

immediate interventions for those with insufficient food, water and sanitation. The estimated cost to the country was KES 969 billion, or 26 percent of the then total GDP.

Windstorm and flooding risk has been minimal.

Insurers advise that they provide coverage for earthquake and other perils as a matter of course and face no challenges in doing so and securing adequate reinsurance. That said, it is notable that use and uptake of insurance coverage in areas most exposed is more limited. In this respect, the availability of coverage for earthquake risks is more likely to become a challenge in future as insurance uptake and outreach outside Nairobi increases than it has been or is at the moment.

Other comments on insurable activity

A number of other measures of insurable activity are worth reviewing in the Kenyan context.

Several non-life insurance products are required by law. Motor Third Party obligations provide for bodily injury but not third-party property risks. Additionally, Workers Compensation requirements oblige cover for all employees. Liability requirements are also compulsory for aviation risks (passenger liability, cargo, baggage) and shipowners (against pollution). Insurance brokers require professional liability insurance and there is a compulsory liability cover required supporting clinical trials.

Motor vehicles numbers have been increasing providing an underpin to insurance sector growth as compulsion is part of the insurance demand for non-life premium (refer Table 4). Over the last five years, numbers of new registrations have grown by 10.3 percent per annum. At the same time, it is notable that the levels of road traffic deaths has varied but shows no particular trend of improvement[28].

Table 4: Motor Vehicle Trends and Indicators

	2012	2013	2014	2015	2016	2017
New Registrations	173,044	222,178	218,057	247,181	213,715	282,672
- per 1000 population	4.25	5.32	5.07	5.59	4.71	6.07
Number of deaths by road traffic accident	4,997	4,942	4,710	5,488	4,809	
- Proportion of total deaths[29]	2.6%	2.5%	2.3%	2.7%	2.5%	
- Proportion of the population						

Source: KNBS unless shown

Taken together, these indicators suggest that motor insurance is not fulfilling its potential function, including by providing a price on risk taking and incentivizing improved outcomes. Along with the poor financial performance, this suggests that it is appropriate to initiate an effort to revise how motor insurance operates in Kenya. This theme is picked up again later in the report and a recommendation is made (refer Moving forward: Findings and recommendations on page 60).

[28] Note: see also Table 9 on page 38 for comparable figures for other jurisdictions.
[29] Refer Table 3.19 of the Economic Survey 2017 from the KNBS for the raw data for this row.

When considering other potential insurable activities, **real estate has been one of the fastest growing sectors of the economy generating a potential need for increased non-life insurance in particular**. The KNBS reports it as the second fastest contributor to GDP growth ahead of transport and construction; all sources of increased potential insurance demand.

Domestic **credit has been growing but more heavily oriented to commercial lending than private households.** Total domestic credit has been growing at 13.2 percent per annum over the last four years (refer Table 2) and private sector credit has seen a rate of 12.1 percent over the same period, both comfortably in excess of GDP[30]. That said, consumer lending is more limited from banks. Credit cooperatives also have a role in providing credit and savings services for individuals and households.

Commercial bank lending is heavily weighted toward businesses and government. Just 14 percent of commercial bank loans are categorized as allocated to community and personal activities. Savings and credit cooperatives lend close to KES 320,100 million in total, the same in aggregate as commercial banks to other than business and government. The National Housing Corporation also provides a small number of loans to individuals to assist in construction and improvement of residential housing[31]. Use of credit in survey responses has been fairly even at 35 percent of respondents with most loans being taken from informal sources for day to day needs.

There are some 42 banks, a mortgage finance company, 13 microfinance banks all supervised by the Central Bank of Kenya. Three of these entities are state owned by majority interest. The CBK conducts regular reviews to assess the mortgage market in particular. Insurance is not cited as a constraint to providing mortgages in that report[32]. That said, lending volumes were soft in 2017 and would have acted as a drain on associated insurance issuance.

Overall, when considering that non-life premium has grown in nominal terms at around 12 percent in the last five years then this seems consistent but a little below these other measures of insurable activity. However, the most recent year has seen a sharper increase in insurable activity growth compared to insurance premium which has experienced a sharply lower rate of growth (see below for insurance rates of growth at Table 5).

Unmet demand and under-use of insurance

There is a substantial body of work that examines the insurance relevant experiences and attitudes of Kenyans, particularly underserved and lower income groups. Not all of these studies are motivated solely at the insurance issues, but all provide some insights. They include successive finscope studies, financial diaries, financial access national survey reports, GPFI reports and microinsurance diagnostics. Some research reports also address specific issues such as particular product experiences, value, trust or related topics. We highlight just a subset here to illustrate the potential in their use.

[30] Source: KNBS (2018)
[31] Just 73 loans were made in 2017 totaling KES 91.7 million (Source: KNBS)
[32] See CBK (2018) for a summary

Financial access surveys provide a rich source of relevant data for insurance providers. The successive financial access surveys have provided specific insurance information as well as broader financial access and usage information in each survey. All surveys gathered data about perceptions of "biggest risks" and economic vulnerability largely measured by an estimate of food insecurity, financial literacy, numeracy, livelihoods and income, use of products, use of money transfer and mobile financial services, savings, credit and insurance as well as formal and informal providers. All of these items would be clearly relevant to assessing the potential for and appropriateness of insurance solutions. The surveys conducted in 2006, 2009, 2013 and 2016 provide a useful set of materials that remain relevant.

Information on excluded and partially excluded groups is informative. Over time, the proportion of Kenyans that are excluded from the financial sector has reduced as has the use of informal solutions. The Financial Access reports note that exclusion has fallen from close to 40 percent in 2006 to 17 percent. Further, the initial 1/3rd who accessed largely informal providers has reduced to just 7 percent with a commensurate increase in use of formal provision. The trend in exclusion is less strong for women than men and rural than urban residents but both have experienced the shift to formality. Persistent exclusion continues for those with less than a tertiary education, other than wage employment or owning a business, wealth below the top two quintiles, and independent of age.

Use of banking type products has been increasing but insurance usage remains low and is more biased by gender, location, education, wealth and livelihood. Savings and credit products are used, or have been, by an increasing proportion of respondents but a material proportion remain who have never used them. Mobile money is far more prevalent and relevant than current accounts, ATM cards or other transactional services. In contrast, insurance use remains largely below 2 percent of survey respondents with the exception of the NHIF that has seen a significant increase in recent years. Most products are somewhat gender neutral in their use with the exception of insurance where female use is materially less than it is for men. Rural and urban differentials for insurance are also higher than for any other financial service. Insurance use is also heavily weighted toward those with higher education but broadly independent of age. Those in employment have twice the tendency to have insurance (41 percent) than any other group (17 percent for those with their own business and less for those in agriculture, or other groups). Insurance use also doubles by each quintile from 2.5 percent for the lowest up to 45 percent at the highest levels.

Adverse events noted in the recent survey were all ones where insurance may have been helpful. Drought was the most significant event raised in rural areas. Death of a loved one, large medical costs, theft, fire or other loss of home or business property and loss of income were all listed as most often mentioned issues. Use of savings and access to social networks were the main coping mechanisms.

Basic insurance awareness exists greatly advanced by the NHIF. When asked in financial literacy terms, over 80 percent of respondents have heard of insurance. This is higher than awareness of some banking services such as ATM cards or mortgages. Much of this awareness seems to have emerged with exposure to national social security and national health insurance fund concepts however than private sector insurance.

Informal groups play an important and nuanced role, suggesting a strong demand for solutions to adversity. Many Kenyans are members of groups that pool contributions[33] and are formed based on family, community or religious affiliations. A non-trivial proportion make contributions through mobile money transfers[34]. Many of these groups are informal (excluded from the regulation) funeral or burial societies or provide assistance in time of adversity. Adversity protection is twice as important as funeral funding, and these two reasons are reported as being among the most important reasons that members join[35].

> "When his baby came down with malaria in one of the slums of Nairobi, Gerard took him to the hospital immediately, using the money they had on hand for other needs. They would cut back on food and other spending for a few days until Gerard was paid again." – Would a small hospital protection product have helped instead?
>
> "One household in Vihiga had planned to sell a goat to buy new roofing sheets, but their two goats were attacked by bees and died in December. They waited until May - mid way through the rainy season - for a ROSCA payout to buy the roofing sheets needed." – Would livestock insurance have helped to avoid living with a leaking roof? What adversity did the family suffer as a result of their unsatisfactory living situation?
>
> "When one child fell from a tree, he broke his jaw and lost several teeth. His mother used all of her working capital from her brewing business. The family sold their cow and also raised funds from friends and family. They asked a relative who is a nurse for help finding a doctor to treat him before they had raised the full amount for the surgery but they were not successful. After about six weeks, they had raised enough for the surgery, and the son was treated and was doing well, though the family took a long time to recover. They could no longer sell milk without their cow. After using up the business's working capital on treatment, the mother switched from brewing to fetching water, a less profitable income-earning activity." – Is there a better way? Could some insurance have helped to get the child some of the care needed earlier than the six week delay?

The "financial diaries" project highlighted many experiences where low income people experienced significant hardship in the face of adverse events due to an absence of adequately performing coping mechanisms where insurance could have been a part of the solution. This information was not profiled in the short (4 page) executive summary version but was highlighted significantly in the (52 page) report. Some examples are quoted directly in the box. Whilst not the core focus of the report and the study, there is a significant opportunity to examine the data from an insurance perspective to better understand experiences and develop appropriate products that would better serve the needs of clients. Information in the existing study would help with product and service design as well as pricing and risk assessment data needs.

In most of the cases illustrated in the report, adversity arose because of multiple effects including the adverse event itself and the way that coping mechanisms either worked slowly, partly or with significant adverse consequences. The "cost" in these cases cannot be underestimated. The potential to develop a

[33] These groups point to a willingness to contribute to such mechanisms. Amounts vary but can be between 5 to 10 percent of income.
[34] Source Finscope
[35] This contrasts, for example, with the Ethiopian experience where such organizations are widespread but are seen as providing only supplementary benefits compared to the social and community elements of membership.

compelling cost benefit for insurance appears to be very compelling.

There is a trust deficit that the financial sector confronts. Trust in informal institutions is the second most issue that prevents people from joining and the perceived risk of loss of money is the highest[36]. Survey respondents also raise concerns about loss of funds or unexplained fees as reasons for leaving a bank. One in three respondents to financial access surveys report a knowledge of pyramid schemes, above their knowledge of the existence of the securities exchange for example.

> "The reputation of the insurance industry in Kenya has been eroded over the years as a result of both perceived and actual malpractices. The Authority has identified reputation as a major hindrance to uptake of insurance. The major issues causing negative perception towards insurance include delayed claim settlement, lack of awareness about the needs and benefits of insurance and industry malpractices. To address this, the Authority is conducting awareness campaign across counties, developed guidelines on claims settlement, adoption of best practice on treating customers fairly and establishment of insurance fraud investigation unit."
>
> Source: IRA Annual Report 2016

Despite the issue of trust being present, the main reasons given for not having insurance was a lack of knowledge, physical access, or concern about affordability. Compared to other markets where concerns may be more negative than passive, this suggests that there is a real opportunity for insurers in underserved markets and the trust barrier is not as high as seen in some other markets. Perhaps as a counterfactual however, Dercon et al (2016) did identify a material trust deficit on a particular product and context and quantified the loss in welfare suffered as a result, suggesting solutions. To that end, it would seem relevant to keep the issue in mind.

The IRA has been engaged in the question of building trust through a program of creating a network of "insurance champions" across the country. These champions were selected and provided with some training and guidance so that they could engage in insurance discussions in their communities with the IRA. They tend to be respected and recognized leaders in the community. Whilst this program has commenced and been useful in raising insurance awareness, it could be possible to renew the engagement with these ambassadors for insurance.

There is a good deal of information available to start to inform an understanding insurance demand. Insurance sector leaders have a limited awareness of these studies and their potential to provide insurance actionable information. Further analysis of underlying data sets is possible as they are publicly available, so research is not restricted to published reports alone. For example, if a focus on a client sub-group was of interest then analysis of their particular characteristics could be advanced. To be fully actionable, the studies may need to be supplemented but they already provide a far more detailed set of information than is available in many countries.

By way of example, asset ownership notes that car ownership is limited but motorcycle ownership is higher than car ownership in rural areas (double) pointing to a useful data source for tailored insurance

[36] Source Financial Access Survey

options and effective and relevant communication[37]. Statistics on television ownership (over 80 percent in urban areas) and bicycle ownership (over 25 percent in rural areas) could be relevant for innovative insurance opportunities. These surveys highlight that, whilst employed people tend to have the highest income levels, those with their own businesses are around 2/3rds of the employed level. Agricultural incomes tend to be somewhat lower at around 1/3rd of the level of those employed.

It is recommended that **a small project to develop insurance accessible and focused material for company executive level absorption would be beneficial**. This project can start with the Financial Diaries and Financial access data sets mentioned in this section.

Insurance usage

Insurance take-up, possibly driven by both demand and supply issues, is concentrated in urban areas especially in Nairobi. The IRA has information on insurance provision by county. An analysis of this information supplemented by other metrics for insurance demand and need such as motor vehicle registrations, demographic structures, GDP etc has been conducted.

The relative importance of life insurance varies considerably between counties.

Life insurance take-up appears to be heavily determined by distribution reach. Examining at the geographic distribution of premium compared to population and agency presence the highest correlations are with agency location rather than population base, especially for life insurance. This indicates that the insurance business could expand into more parts of Kenya if it was to find successful models to expand the reach of its distribution.

The IRA has been engaged in efforts to grow capable agent-based distribution in areas outside Nairobi and successfully trained and certified a large number of potential agents from local communities. This innovation, which arguably should have been done by insurers themselves, is laudable however, it is recommended that further initiatives that are driven by more substantive sector partnerships and include alternative channels would also be needed.

The correlation between insurance use and agency presence is greater than population based measures consistent with a distribution driven model. This finding is also in line with the survey based analysis that the lower penetration outside Nairobi is not because of a lack of desire on the part of clients but a lack of experience with a product where few insurers make it available.

FinScope 2016 estimates that there are 4.9 million Kenyans who "use" insurance including those that count their membership of the NHIF. By gender, the study identifies that 29.7 percent of men and 17 percent of women are "users" of insurance. Insurance including NHIF users are more heavily weighted in urban compared to rural areas, wealthier, employed (NHIF will be a factor). Increasing insurance awareness has been growing as the NHIF has been expanding its outreach. Reasons for not taking

[37] For example, promoting and communicating about motor insurance in rural areas would be more effective if it was well balanced including both product customization and communication that speaks to motor cycle ownership contrasted with the usual bias in urban areas toward cars.

insurance are identified and are primarily a lack of knowledge or perceptions that insurance is too expensive.

Financial literacy, Insurance literacy and Awareness

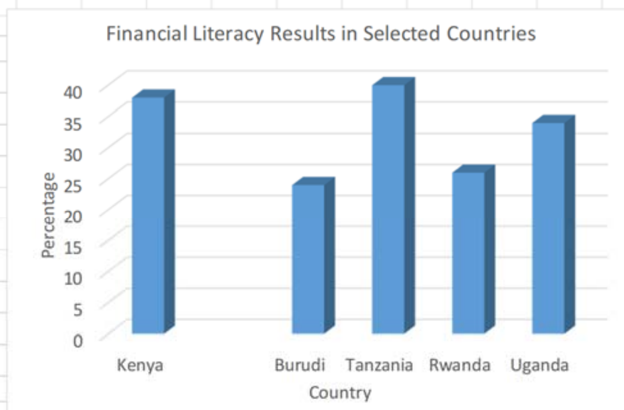
Whilst the overall levels of education and literacy are high in Kenya, financial literacy and insurance literacy are at more modest levels.

The extensive cross-country study conducted by the World Bank and Standard and Poor's in 2015 provides comparative financial literacy scores albeit that it does not specifically address insurance. It found that 38 percent of Kenyans were financially literate. This compares broadly with the rest of the EAC, slightly lower than in Tanzania and higher than Uganda (see Figure 3).

Figure 3: Financial Literacy in the EAC

Percent of the population assessed as financially literate

Country	Percentage
Kenya	38
Burudi	24
Tanzania	40
Rwanda	26
Uganda	34



Source: Klapper et al, Staff Analysis

More granularity has been made possible in this analysis through access to the underlying responses. The survey used a standardized five question scoring approach. The average number of correct answers per respondent in Kenya is 2.60 with 6 percent getting all correct and 5 percent getting no answers correct. In Tanzania and Uganda respectively, the average score was 2.55 and 2.40 with 4 percent and 2 percent all correct and 6 percent in both cases getting no answers correct.

The worst category response was provided for the inflation question, consistent with other jurisdictions where performance on this question is better in countries that have experienced periods of very high inflation. Tanzania and Uganda also saw this category producing the lowest scores.

Income levels and age are the main driver of results. Correlations of scores with other variables suggests that income levels and age have the higher correlation scores. Scores were better for men (2.73) than women (2.53), richer (2.76) than poorer (2.34), and for those who have had either a bank account or formal credit and lower for older respondents. This is broadly consistent with results in other jurisdictions although rankings of correlations differ by country; Tanzania prioritizes age then having a bank account and Uganda prioritizes having a bank account then income level. Only 12 percent of the survey had experience of a mortgage loan (Tanzania 6 percent, Uganda 12 percent).

The IRA has been engaged in efforts to raise insurance awareness. It has conducted a series of initiatives in regional areas covering a wide range of communication channels from "insurance" related community events to radio and other media education efforts. It has also recruited a group of "insurance champions" made up of respected local community leaders. Many of these initiatives are to be applauded. The IRA strategic plan discusses financial literacy and the usefulness of improving it to advance insurance sector penetration.

Development, Performance and Competition in the Insurance Sector

This chapter examines the insurance sector and its performance trends, challenges, and constraints. At the same time, it examines the regulatory context that is relevant to the sector issues at each point. It leaves remaining regulatory matters to a later chapter (see "Regulation and Supervision – how has it supported development?" at page 54 below).

Premium growth and development

Over the last 10 years the insurance sector in Kenya has shown impressive nominal growth but has not achieved the same results in real terms. Although the sector, and both life and non-life subsectors, have grown at around an impressive 16 percent per annum, the long-term growth in real terms, measured against GDP has been flat. Insurance penetration (premium to GDP) stands at 2.6 percent placing Kenya in a phase where the market is developing and maturing.

The life sector has performed better in real terms with real growth in premium at 2.8 percent per annum but the non-life sector has contracted in real terms more recently, failing to maintain its penetration compared to economic activity to be insured. Table 5 suggests that growth in the last ten years for the sector could be summarized as largely attributable to inflation in nominal amounts insured plus a level of increased life insurance penetration reaching new clients and increasing use by existing clients.

Table 5: Premium and Growth Trends for the Insurance Sector in Kenya

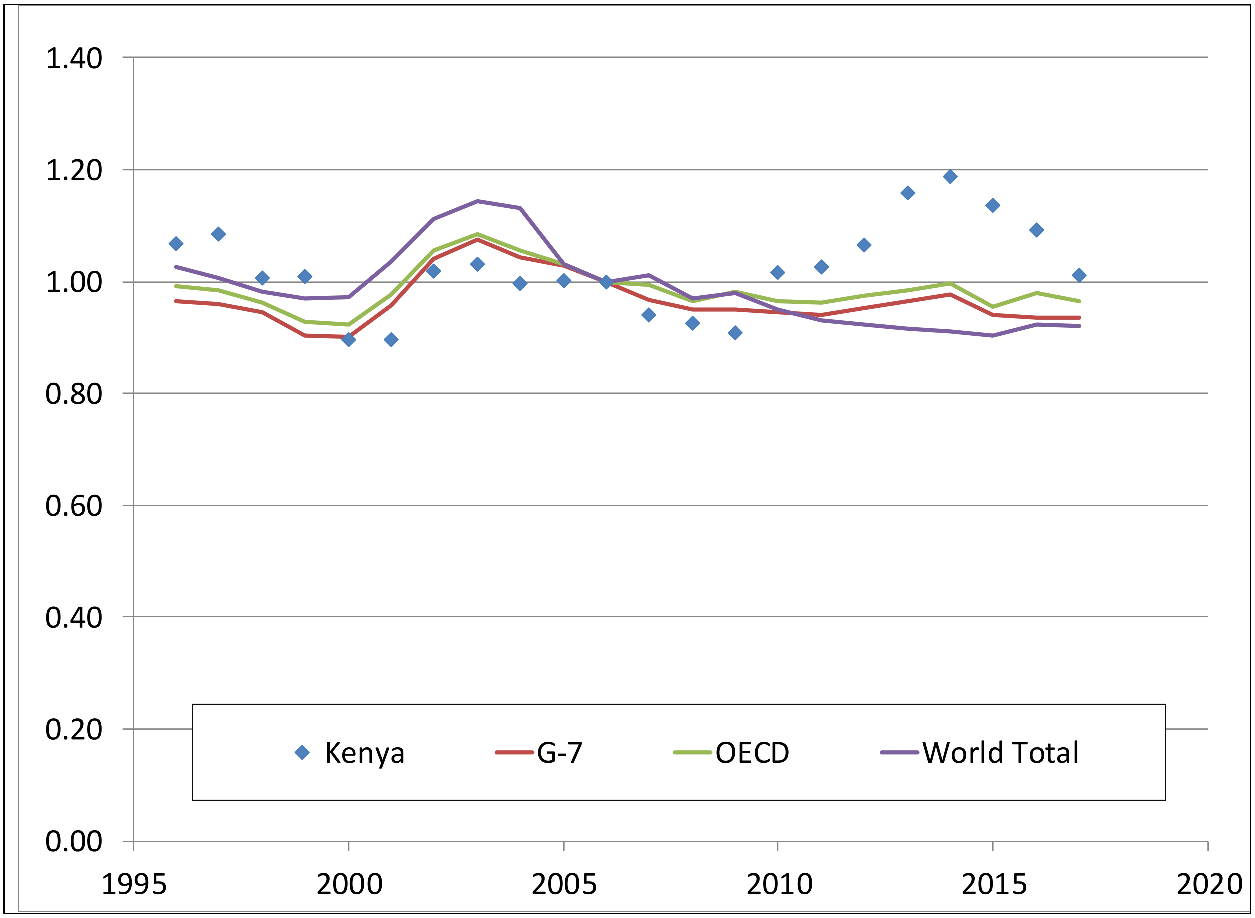
	2007	2012	2015	2016	2017	Rates of Growth (percent per annum) 1 year	5 years	10 years
Insurance Premium (in millions local currency)								
- Life insurance	17,057.54	37,922.25	62,064.81	73,519.18	82,807.83	12.63%	16.91%	17.12%
- Non life insurance	31,879.74	71,445.69	111,999.85	123,116.65	126,193.46	2.50%	12.05%	14.75%
Total	48,937.28	109,367.94	174,064.66	196,635.83	209,001.29	6.29%	13.83%	15.62%
Insurance Premium (in millions USD)								
- Life insurance	253.38	448.62	632.15	724.54	799.30	10.32%	12.24%	12.17%
- Non life insurance	473.56	845.21	1,140.76	1,213.33	1,218.08	0.39%	7.58%	9.91%
Total	726.94	1,293.84	1,772.91	1,937.87	2,017.39	4.10%	9.29%	10.75%
Insurance Penetration (premium to GDP)								
- Life insurance	0.79	0.89	0.99	1.03	1.04	1.75%	3.26%	2.80%
- Non life insurance	1.48	1.68	1.79	1.72	1.59	-7.41%	-1.02%	0.72%
Total	2.27	2.57	2.78	2.75	2.64	-3.98%	0.55%	1.49%
Insurance Density (premium per capita) in local currency								
- Life insurance	448.06	868.78	1,313.82	1,517.11	1,666.15	9.82%	13.91%	14.03%
- Non life insurance	837.40	1,636.79	2,370.87	2,540.58	2,539.10	-0.06%	9.18%	11.73%
Total	1,285.46	2,505.57	3,684.69	4,057.69	4,205.26	3.64%	10.91%	12.58%
Insurance Density (premium per capita) in USD								
- Life insurance	6.66	10.28	13.38	14.95	16.08	7.57%	9.37%	9.22%
- Non life insurance	12.44	19.36	24.15	25.04	24.51	-2.11%	4.83%	7.02%
Total	19.09	29.64	37.53	39.99	40.59	1.51%	6.49%	7.83%

Source: Axco, Staff Analysis

Non-life sector performance is positive when standardized for global price cycles but recent trends have been disappointing. Figure 4 shows the trends in the insurance penetration rate for non-life insurance compared to some larger aggregates covering the G-7, OECD, and World totals. Each of these aggregates can be assumed not to be impacted by market development trends, increased usage of insurance, or local impacts such as privatizations or nationalizations of classes of business. The result from these aggregates is the well documented "pricing cycle" which, over the last 10 years, has shown a soft market decline. All figures on the chart are scaled and standardized to unity at 2006 so as to see trends since then. The Kenyan market has held its own against this pricing decline suggesting that the overall flat performance shown in Table 5 is a positive outcome against global trends.

To a small extent, and less so than in the life sector, the non-life sector has still made positive progress in terms of growth and penetration over the last decade. However, this recent outcome combines a solid period in the early part of this decade followed by a succession of negative years of growth.

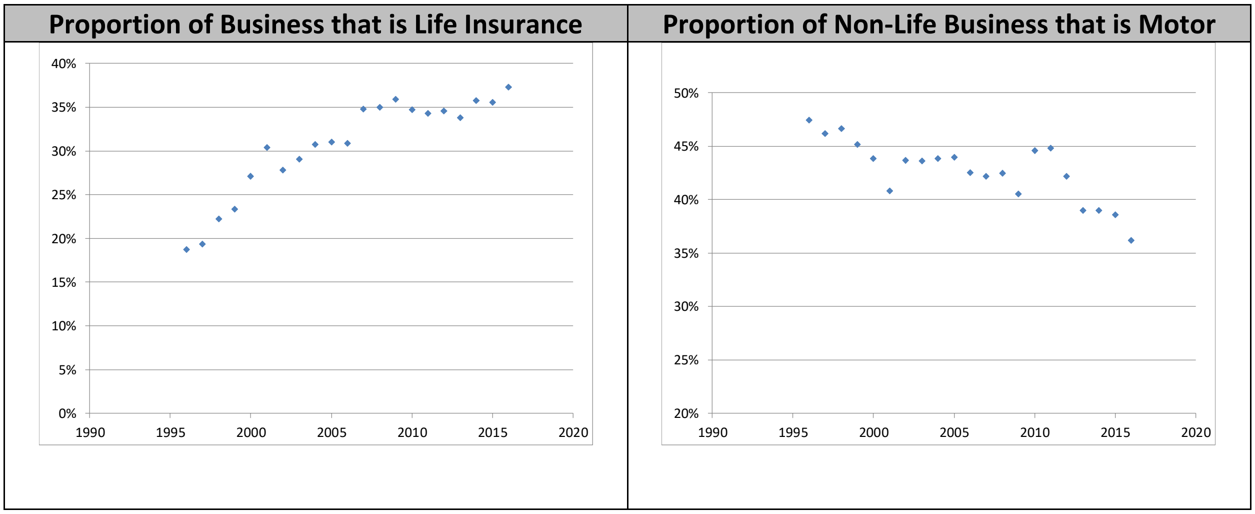
Figure 4: Comparing Non-life Insurance Penetration with Global Trends



Source: AXCO, Staff analysis

As the Kenyan market develops, the proportion of premium that is life insurance continues to rise and the non-life product mix diversifies away from motor insurance. These development indicators are consistent with a market that is maturing as well as growing. They are also particularly welcome in the Kenyan context as it increases the potential for the sector to become more engaged in longer term investment than it currently is, and MTPL performance continues to be particularly problematic.

Figure 5: Business Mix Developmental Indicators



Concentration and Competition

The insurance markets for both life and non-life sectors have low concentration levels by international benchmarks. There are some 37 non-life insurers and 24 life insurers of which 9 are composites, making for a total of 52 separately licensed entities.

Box 3: Licensing insurers under the Insurance Act

The Insurance Act requires all entities that wish to conduct insurance business in Kenya to be authorized and registered[38]. All insurance and reinsurance business must be placed with authorized insurers unless approved in writing by the Commissioner. Insurers generally have to be a locally incorporated body corporate with at least a 1/3rd interest controlled by citizens of the East African Community, although the Insurance Act does also recognize the option to establish a branch operation.

Minimum initial capital and locally domiciled asset requirements are specified [in the schedule to the Act] which may be amended by the IRA by gazette order. Reinsurance and provisioning requirements have to be adequate, in line with the ongoing sections, and the necessary deposit of cash or securities has to be made with the Central Bank of Kenya. Limitations on control by certain shareholders, and by executives, are included in the licensing requirements in the Insurance Act itself. Composites are permitted but must maintain a life insurance statutory fund that is not available for non-life insurance obligations including in the event of wind-up. A minimum of five board members are required and at least 1/3rd of these should be Kenyan citizens[39]. A "fit and proper" CEO includes the requirement to have both qualifications and a minimum of 10 years of relevant managerial experience.

[38] Insurance Act Part III Section 19 and onward
[39] Insurance Act section 27 and 27A.

The Board of the IRA is the decision-making authority for licenses[40]. It can register the insurer, or not, or it can do so with conditions.

Numbers of insurers are not usually a comparable metric but the Herfindahl Index has proved to be a useful benchmarking measure. The Herfindahl index values for both life and non-life sectors are well below what might be considered to be a natural level at 523 for non-life insurance and 1,113 for life insurance. This suggests that competition is fierce, profitability is constrained, and insurers would be battling to grow market share through efforts to acquire distribution capacity from others. During the initial mission, this observation was validated with insurance managers who confirmed both the severity and irrational nature of competitive behaviors and the resulting constraints. Ultimately, to build scale, mergers lead to a gradual higher index value. Benchmarking would suggest that the "neutral level" for the HHI in the market with the characteristics and size of Kenya would be 1,200 for non-life and 2,200 for life insurance sectors although transitions to these levels do occur over a period of years[41]. The trends seen over the last 10 years both in terms of the herfindahl measures and industry merger activity are consistent (see Table 6).

Features of less than rational competition observed in countries with lower than "natural" Herfindahl index values include persistent price wars particularly for commodity products such as compulsory motor insurances, poaching of distribution by offering higher commissions and aggressively targeting agents of other companies, accumulating losses, continued, even redoubled efforts to secure scale. More and more losses.

Table 6: Trends in Competition Measures 2006-2017

	2006	2010	2011	2012	2013	2014	2015	2016	2017
Herfindahl Index									
Life total	1,014	1,101	1,083	1,163	1,133	1,131	1,054	1,145	1,172
Non-life total	436	482	513	544	506	493	509	523	
Life insurance product lines									
Life Assurances								1,738	1,711
Annuities								1,528	2,150
Pensions								1,786	1,725
Group Life								1,820	1,487
Group Credit								2,127	1,155
Investments								2,529	2,719
Non life insurance product lines									
Aviation								5,230	
Engineering								547	
Fire Domestic								570	
Fire Industrial								572	

[40] See Insurance Act section 31
[41] For a discussion and cross country benchmarking analysis see Thorburn, C., *Insurers: Too many, Too few or "Just Right"*, World Bank Working Paper 4578 and the updated analysis published under the auspices of the IDRS in 2014. A further update by the World Bank is expected in March 2019.

Liability								1,059	
Marine								692	
Motor Private								486	
Motor Commercial								571	
Motor PSV								4,731	
Personal Accident								912	
Theft								579	
Worker's compensation								557	
Medical								1,329	
Miscellaneous								755	
Market share of the 5 largest insurers									
Life	62.26	68.71	67.90	70.96	69.80	66.59	62.79	63.81	
Non-life	35.97	38.43	40.73	42.23	41.00	39.80	40.82	40.66	
Number of insurers by type[42]									
Life only	7							15	15
Non-life only	20							26	28
Composite	17							11	9
Total insurers	44						51	52	52
Reinsurers	2						3	3	4
Number of insurers by ownership									
Foreign									
Domestic									

Source: IRA Annual Reports, AXCO, Staff Analysis

Although product classes are discussed further below, it is useful to note that **competition is most "severe" in non-life insurance classes, particularly in motor insurances**, although some classes show that there are some areas where smaller segments have some specialization. Life insurance competition is more severe in the corporate lines of business such as group life and some pension and annuity lines.

Change of control is regulated under the Insurance Act. Significant owners are identified based on a threshold of ten percent of a controlling or beneficial interest[43]. No person may control in excess of 25 percent of the capital, dividend entitlements, voting rights or board positions except with a license of if they are a foreign entity of the Government of Kenya or a state-owned entity or a listed company[44].

Understanding the solution to competition in Kenya is, however, not totally explained by the metrics. Taken alone, the case for consolidation in the sector is strong. Stakeholders agree that some consolidation would appear inevitable and, in some cases, argue for intervention to stabilize the situation from the IRA or to encourage mergers. However, the existence of a significant and available underserved market as well as the increasing level of integration in the region among insurers suggests

[42] Insurers are defined under the Insurance Act to include reinsurers (see section 1)
[43] Insurance Act section 1.
[44] Insurance Act section 23(4A)

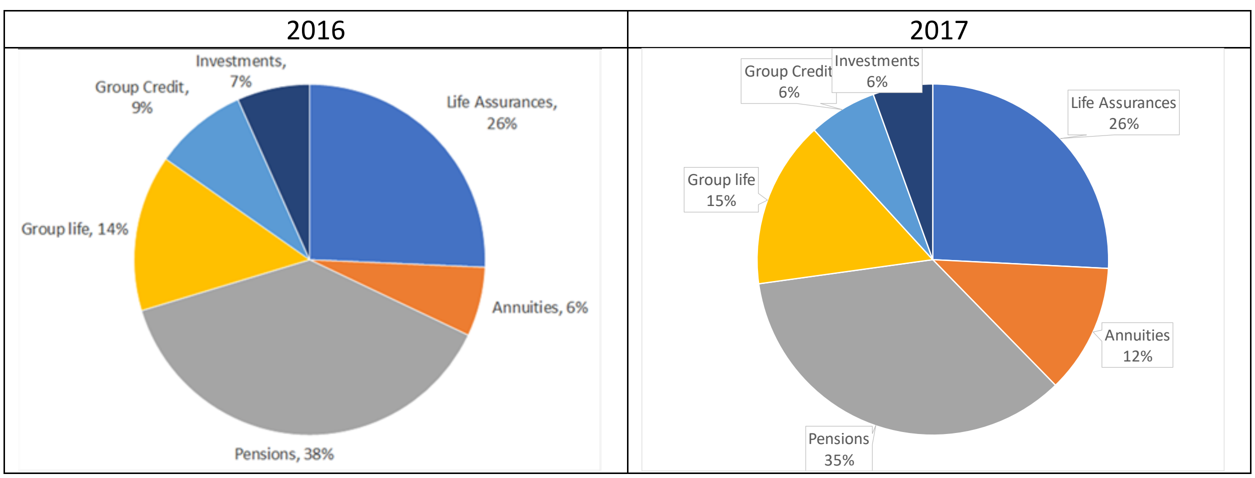
that measures based on policies sold within Kenya's geographic and political borders may not be a complete solution for policy prescription compared to their relevance in other markets.

Product Supply, Financial Performance and Risk Management

Product supply in the life insurance sector provides a broad range of product types and is emerging from a more traditional product offering. The Insurance Act provides for life insurance in traditional terms (including personal accident policies), life annuities, child advancement policies, group life insurance, industrial insurance and Bond insurance to be considered as "long term-insurance". Ordinary life insurance is defined as distinct from industrial life insurance[45].

There is little evidence that the NSSF is crowding out life insurance penetration. Substantial pension and annuity business is being done by the life insurance companies. NSSF coverage for formally employed workers is at material levels and contribution rates are not insignificant, but the membership numbers are limited. The NSSF provides coverage largely to formally employed workers but does have an outreach program for the informal and self-employed. Coverage continues to be low compared to the total population. It provides retirement pension benefits[46] although, with the very young population, this will be of lesser engagement in Kenya than most countries. Invalidity and funeral benefits are also provided. Compulsory contributions at 6% each for employers and employees are collected, although higher paid workers may have the option to redirect some of their contributions to their organization's pension scheme where available.

Figure 6: Product Mix - Life Insurance

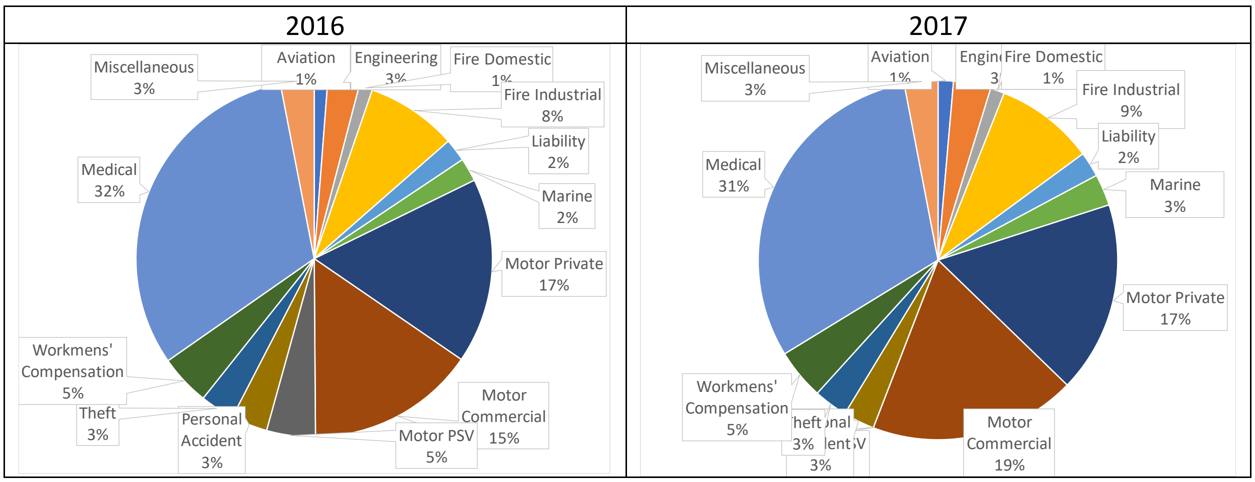


[45] Insurance Act section 1. The Insurance Act provides for life insurance defined as products contingent on human life and including personal accident policies, life annuities, child advancement policies, group life insurance, industrial insurance. Bond insurance is included in the definition of "long term-insurance".
[46] The scheme currently has an "old" fund that provides benefits on retirement on reaching age 60 or optional early retirement from age 50 and a "new" fund that provides benefits from age 50.

Source: Staff Analysis, IRA Annual Reports

The non-life sector provides a full range of products although remains concentrated in traditional motor and commercial lines (refer Figure 7). The Insurance Act defines the sector as "general insurance" being anything other than life insurance[47] and then establishes a range of categories for subclasses. Medical insurance is a significant business line (refer to the dedicated section "Special Product Focus – Health Insurance" on page 37 below). Motor insurance, categorized locally in terms of private, commercial and "PSV" makes up 37 percent of total premium[48]. Commercial insurance products outweigh retail products.

Figure 7: Product Mix – Non Life Insurance



Source: Staff Analysis, IRA Annual Reports

There is one Takaful insurer that operates as a composite company and provides Islamic finance compliant insurances.

Profitability in the market has been deteriorating. Table 7 shows deteriorating claims ratios reflecting price competition. Combined ratios now exceed 100 percent. Over the same period, expense rates have increased consistent with increased distribution competition in search of market share.

[47] Insurance Act section 1.
[48] These figures refer to 2016 calendar year. Readers are also referred to the special section on MTPL at "Special Product Focus – " on page 20.

Table 7: Profit and Efficiency Ratios

Profit and volatility	2011	2012	2013	2014	2015	2016	*Data set average*	*Data set co-eff of variation*
Claims ratios								
Property	46.23	50.60	46.70	43.76	41.96	43.07	*48.84*	*0.161*
Construction and engineering	41.59	49.27	53.69	61.85	55.46	51.62	*40.80*	*0.378*
Motor	52.95	58.44	59.22	60.87	63.97	64.38	*66.88*	*0.174*
Workers Compensation	53.88	48.22	47.25	54.80	52.45	55.96	*78.22*	*0.338*
Liability	60.34	62.77	33.19	24.15	38.47	44.34	*63.15*	*0.484*
Surety, Bonds & Credit	n/a	n/a	n/a	n/a	n/a	n/a	*n/a*	*n/a*
Miscellaneous	30.27	25.60	37.91	48.71	39.58	21.12	*31.58*	*0.335*
Marine, Aviation and Transit	59.96	61.44	36.71	27.58	41.39	36.97	*47.96*	*0.348*
Personal Accident & Healthcare (Non-life)	69.13	70.81	69.68	74.29	69.52	72.05	*69.87*	*0.108*
All Non Life Insurance	55.13	58.84	58.39	60.88	61.65	62.73	*63.87*	*0.121*
Combined ratios								
Property	80.83	85.30	86.34	88.15	97.79	95.83	*81.32*	*0.119*
Construction and engineering	64.19	81.83	85.70	120.48	163.28	106.68	*80.84*	*0.408*
Motor	86.82	94.67	97.67	100.91	105.89	105.74	*98.20*	*0.069*
Workers Compensation	90.73	87.35	90.09	98.25	98.90	101.89	*107.84*	*0.270*
Liability	103.52	115.19	78.85	60.27	91.81	90.62	*86.00*	*0.186*
Surety, Bonds & Credit	n/a	n/a	n/a	n/a	n/a	n/a	*n/a*	*n/a*
Miscellaneous	54.10	55.36	66.72	80.40	76.37	58.65	*61.88*	*0.194*
Marine, Aviation and Transit	82.99	99.29	73.35	59.02	100.54	85.66	*79.32*	*0.160*
Personal Accident & Healthcare (Non-life)	100.25	100.53	96.73	101.61	96.85	103.59	*97.21*	*0.051*
All Non Life Insurance	88.25	93.89	94.18	97.71	101.79	102.43	*94.83*	*0.055*
Expense ratios (implied)								
Property	34.60	34.70	39.64	44.39	55.83	52.76	*32.48*	
Construction and engineering	22.60	32.56	32.01	58.63	107.82	55.06	*40.04*	
Motor	33.87	36.23	38.45	40.04	41.92	41.36	*31.33*	
Workers Compensation	36.85	39.13	42.84	43.45	46.45	45.93	*29.62*	
Liability	43.18	52.42	45.66	36.12	53.34	46.28	*22.85*	
Surety, Bonds & Credit	n/a	n/a	n/a	n/a	n/a	n/a	*n/a*	
Miscellaneous	23.83	29.76	28.81	31.69	36.79	37.53	*30.30*	
Marine, Aviation and Transit	23.03	37.85	36.64	31.44	59.15	48.69	*31.36*	
Personal Accident & Healthcare (Non-life)	31.12	29.72	27.05	27.32	27.33	31.54	*27.34*	
All Non Life Insurance	33.12	35.05	35.79	36.83	40.14	39.70	*30.97*	

Source: AXCO, Staff Calculations

Low profitability has constrained investment in innovation, compounding the competitive problems insurers are facing. The combined ratio for non life insurance has deteriorated progressively and is now at levels that are unsustainable in the shorter term. Underwriting losses have now persisted over the last three years (refer Table 8). Investment income has continued to ensure overall positive results however but erodes incentives for effective risk taking. Throughout this period of adverse performance, it is notable that claims ratios have driven performance and that expense ratios have remained relatively stable and high, consistent with a lack of progress in achieving efficiencies and improvements, and economies of scale.

Table 8: Profit and Profit Ratios

	2012	2013	2014	2015	2016	2017
Underwriting Result (KES'000)		3,402,770	1,604,507	(226,282)	(2,125,731)	(1,027,844)
Investment income ratio	2.0	11.3	7.1	7.4	5.8	7.8
Incurred claims ratio	58.8	58.4	60.9	61.7	62.7	61.5
Combined ratio	94.0	94.2	97.7	102.7	102.4	101.1

Source: IRA Annual Reports

Special Product Focus – Health Insurance

Medical insurance has been a significant product line in the Kenyan market. It is a high priority in insurance awareness and risk surveys. As noted in **Error! Reference source not found.** (on page **Error! Bookmark not defined.**), medical insurance makes up a very substantial 34% of total non-life premium as the sector has responded to this customer priority. Growth in demand over the last five years is clear as the class constituted less than 25% in 2013, although total premium from medical insurance did record a slight decline in 2017.

Product innovation in this space is continuing. The IRA reports that, of the 21 new or repackaged general insurance products approved in 2017, 10 were medical and two others were microinsurance or packaged products with a health orientation. This compares to 22 products in 2016 of which 5 were medical and one was a microinsurance product. The life insurance approvals in 2017 totaled 27 products of which five of them (critical illness, retirement medical income, permanent disability and hospital cash type products) oriented toward the medical demand. This is also an increase over 2016 where 26 life insurance products were approved, none of which had such an orientation. Despite this positive outlook, only around half of the insurers that could offer medical insurance actually do so.

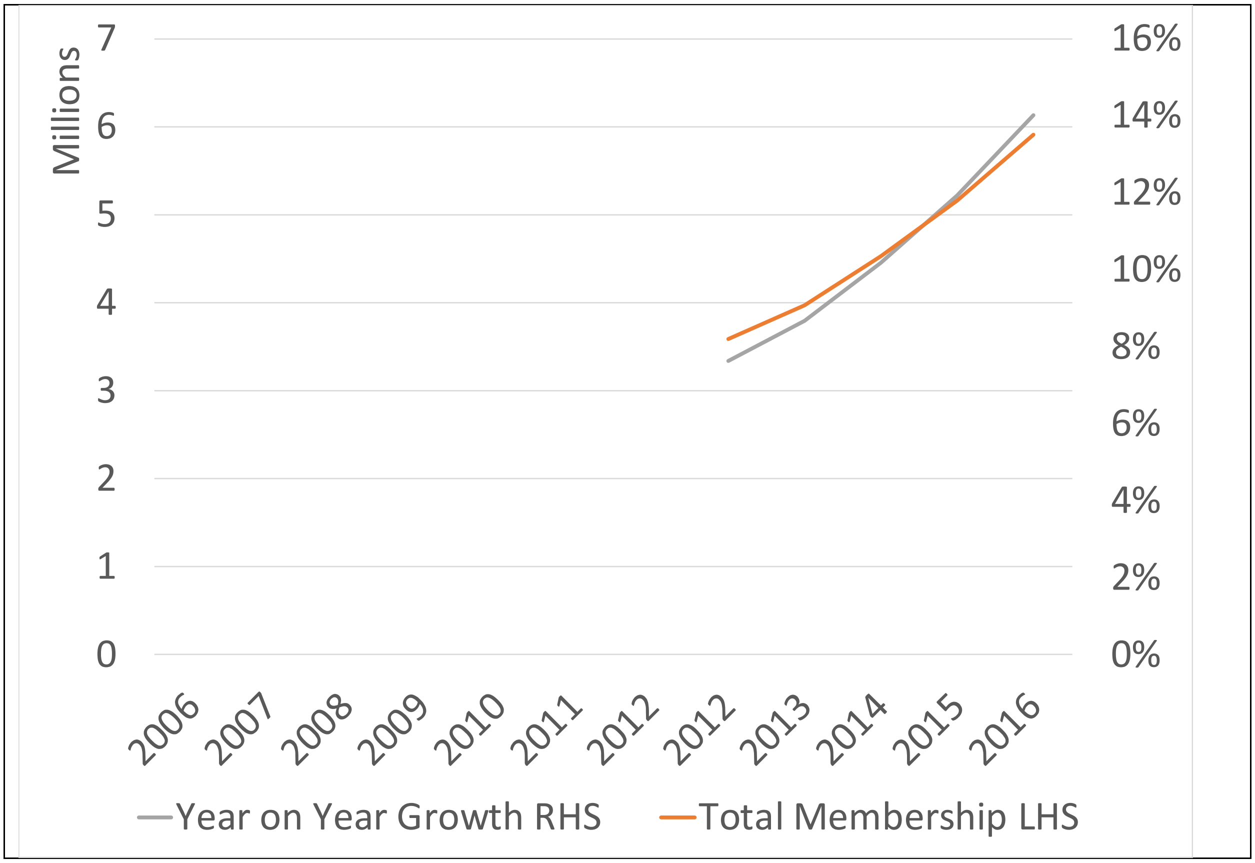
Profitability has been inconsistent, producing underwriting losses in three of the last five years. Net incurred claim ratios are persistently the highest of any product category in the general insurance class at around 75 percent. Consistent with the more limited risk profile in a large and statistically well diversified class, reinsurance retentions are relatively high at close to 70 percent of premium. Reinsurers have lost money in all of the last five years on this class.

The National Hospital Insurance Fund (NHIF) was established by statute in in 1966. Initially housed as a department within the Ministry of Health, it provided benefits for those in formal employment only until an amendment in 1972 included the informal sector. It became a state corporation in 1998. Membership is compulsory in the formal sector and voluntary through registration for the informal and self-employed. Contributions have been required on a sliding scale currently capped at KES 100,000 in salary with monthly contributions ranging from KES 150 to KES 1,700[49]. The NHIF is not regulated by the IRA.

The NHIF has embarked on a deliberate growth strategy. Membership has been growing quickly and now stands at 13.5 percent of the population[50], up from 8.2 percent only four years ago (see Figure 8).

[49] Source: NHIF Website http://www.nhif.or.ke/healthinsurance/home as at 8 November 2017.
[50] Source: Staff Calculations and KNBS data citing NHIF, 2016

Figure 8: Numbers and growth rates of NHIF Membership



Source: NHIF, KNBS, Staff Analysis

There is little support for the contention that medical insurance growth has resulted from focused distribution. The Insurance Act provides for a "Medical Insurance Provider" as a specific limited distributor for the placement of medical insurance business[51]. There are 31 such registered providers as at the end of 2017 up from 29 in 2013. Numbers of licensed medical insurance providers have been somewhat variable over the last five years ranging from 22 in 2015 to 32 in 2016.

Overall, the combination of an awareness effort from the NHIF, insurer product focus and development, real and relevant consumer needs, and a product line with relatively more frequent claim activity all comes together to increase insurance awareness and demonstrates insurance value. The sector likely is getting broader development benefits from this combination even though the product itself is only marginally profitable and does not generate asset accumulation for investment.

Special Product Focus – motor third party liability insurance

Motor insurance is a significant non-life insurance class in Kenya and is the cause of considerable concern particularly among insurance industry stakeholders who are keen to find a solution to the

[51] Insurance Act Section 1.

persistent and worsening loss making results. The business is both substantial and somewhat unusual as the commercial motor business premium exceeds private motor. The deteriorating losses have been attributed more to private motor than commercial business.

In response to concerns, in 2010 the IRA introduced a minimum tariff regime. Some insurers appeared to be following an undesirable 'cash-flow underwriting' approach in this line. The tariff had a positive effect but not a sustained one and concerns re-emerged. However, more recent calls to reinstate the strength of the tariff system have been raised by insurers but questioned by others as the appropriate solution to insurer inability to manage effective pricing decisions.

At the same time, as shown in Table 4 (see page 21), there has been little trend impact on road safety mortality over the last decade. The deteriorating claims ratio in part effected by competitive price cutting has also occurred simultaneously with a deteriorating road accident mortality experience. That said, Tanzania and Rwanda also have worse mortality statistics and a poor financial performance in the portfolio. Uganda and Nigeria, in contrast, have both better mortality reported and more profitable motor pools, and interestingly less material ones to the market.

Table 9: Motor Insurance and Related Statistics - Country Comparatives

	Kenya	**Ghana**	**Nigeria**	**Tanzania**	**Rwanda**	**Uganda**
Motor as a percent of total non life	35.45	48.43	22.43	34.29	48.05	25.50
Motor Claims Ratio	62.60	n/a	43.78	45.67	66.43	34.22
Motor Combined Ratio	104.66	n/a	n/a	100.58	n/a	n/a
Mortality caused by road accidents per 100,000 population						
2005	28.9	28.1	22.4	31.0	30.7	29.6
2010	29.0	27.6	22.8	31.0	31.0	29.5
2015	30.5	26.1	20.6	33.4	32.9	27.3
Market Tariff	Yes, historically	Yes, not always observed	Yes	Yes, by "Gentlemen's agreement"		Minimum rates in place since 2013
MTPL	Obligatory	Obligatory	Obligatory	Obligatory		Obligatory
Bodily injury	Yes, capped	Unlimited, (under review)	Unlimited	Unlimited		Yes
Property	Yes, capped	Included subject to limits	Yes, subject to a minimum cap	Not compulsory		No
Compensation fund	No, although there is a fund for	Yes, funded by a fixed amount per policy	Yes, funded by an allocation from NAICOM	No, but has been proposed		Proposed

	insolvent insurers					

Source: Axco, GSMA for comparative purposes.

Comparatively, the Kenyan market also shows some regional consistency regarding challenges especially with uninsured driver levels and observance or otherwise of pricing guidance. It stands out for not having an operational compensation fund.

Improving insurance observance may also present an opportunity. It is a persistent issue in the region and one that has not been advanced very far in terms of innovative solutions. In Nigeria, a central database has been introduced that is available to support identifying fraudulent insurance documents. Other countries have taken steps with varying success to produce more reliable documentation. Recent advances in photo recognition technology would seem to present a more reliable and credible regime and could be introduced at limited cost and greatly advance credible compliance[52].

Telematics and usage-based insurance approaches would also appear to have some application in the Kenyan market to address the current issues and help turnaround performance. However, as is noted elsewhere, limited access to information about how these approaches may be relevant in the Kenyan context has meant that take-up of these ideas has not yet started. This is despite the financial imperative coupled with a vehicle fleet and mobile connectivity which would seem to align to action.

Special Product Focus – mobile insurance

Mobile financial services in Kenya has been widely recognized throughout the world as a leader. The M-Pesa mobile money system has gone from early days as a prominent case study in financial inclusion to a day-to-day part of the payment system for most if not all Kenyans. Additional financial service offerings extend as far as even being able to buy government bonds through mobile phone-based retail interfaces.

Perhaps unlike no other country, mobile money has become part of the financial fabric in Kenya. The first money transfer service offered through mobile phones was launched in 2007. M-Pesa, launched by Safaricom, is now widely regarded as a showcase internationally for its innovation and success. Mobile money is the most utilized financial service reported in financial access surveys and mobile money

[52] Automated Number Plate Recognition (ANPR) has been introduced in some jurisdictions whereby plates are read as they pass a camera, sometimes mounted on a police vehicle but also able to be done separately or even through a cell phone, storing the reading and the picture as needed, and sometimes additional information about the color and size of the vehicle, and checking the plate against the central database. As such, enforcement requirements could be triggered and automated, further reducing potential for bribery issues and adding to credibility. Expensive systems (refer Neville (2017) and IT News 2018) were replicated by open source software very inexpensively (see freecodecamp).

agents tend to be the nearest of all financial service providers in both rural and urban areas, close enough to walk so without the need to spend money on transport.

Mobile phone use in Kenya is high. The number of Mobile subscriptions stands at 42.8 million[53] and has grown at a compound annual rate of 8.1 percent over the last four years. The vast majority of connections (97%) are based on pre-paid plans. Comparably, usage of mobile money has increased even faster. At the end of 2017, the total annual amount of mobile money transfers has grown to KES 3,638, an annual growth rate of 17.6 percent over the period[54]. Over 70 percent of Kenyans have a mobile money account[55].

Table 10: Comparative Mobile Phone Coverage and Use Data

	Kenya	Ghana	Nigeria	Rwanda	Tanzania	Uganda
Connections as a percentage of the population	82	120	72	71	69	56
Percentage prepaid	97	99	96	99	97	97
Percentage mobile broadband	36	56	42	14	37	29

Source: GSMA, usually Q4 2017 data being the latest available

Somewhat unusually, given this context, mobile insurance has had a mixed history in Kenya. Several insurers have developed products and sought to market them but it is not the endemic product that other financial products are in Kenya or as successful as it has been in some other African countries. Commentators attribute this to the challenge and relevant control that the mobile network operators have. In their experience, they report that it is more challenging to find a compelling commercial engagement with the MNOs in Kenya than it is elsewhere.

In part, this result is a consequence of a desire to focus the relationship on sales distribution. Initiatives have mirrored those tried in other countries in having a sales driven focus, meaning that they are oriented toward accessing and registering customers through the MNO platform. They have not switched to a largely service oriented platform use, even though M-Pesa is usually a payment option. More substantive innovation in this space would require innovation on the part of the insurers.

To another extent, the developments have suffered from the relative attraction of M-Insurance models in other countries to the more global Technical Service Providers. Although the main TSPs are present in Kenya, they are working regionally and responding to opportunities in the region as much as they are in Kenya, if not moreso, given their experience with the MNOs.

Thirdly, product development is continuing but is in need of innovation investment. In particular, at the time of the mission, business models in M-insurance were transitioning toward hospital cash products using different business models and product features, and considerable variations that would be best

[53] Source: KNBS (2018)
[54] Source: KNBS (2018)
[55] Source: CGAP 9 November 2017, Blog > Who Are Kenya's Financially Excluded? William Cook (see http://www.cgap.org/blog/who-are-kenya%E2%80%99s-financially-excluded?)

described as experimental. As a result, this "proof of concept" type effort suggests it may be some time before the models mature. Investment in this innovation is limited for reasons already stated.

So, in summary, the mystery of M-Insurance in Kenya is one of both a lack of effective partnerships with all relevant potential partners having some diverse experiences and history that makes them skeptical, and of the limits in innovation capacity. It remains a significant obvious shortcoming in the insurance space compared to other African countries given the underlying conditions.

Composites and Insurance Sector Performance

Like many African countries, the Kenyan insurance law determined to move away from composite insurers. The authorities took the softer route of allowing existing composite insurers to remain if they chose, in contrast to some other jurisdictions where separation was required. Under this optional arrangement some insurers chose to separate, and others did not, providing a useful comparative of performance.

Under the insurance law, there has been very limited advantages in having a composite structure. Initially, the required deposit with the CBK was lower and a transition was provided to allow composites to increase their deposits over time to the level required for separated entities[56]. Separate solvency margin requirements apply.

This provides the unusual opportunity to compare the performance of the three types of organizations in Kenya; (1) continuing composite insurers; (2) those where legal separation took place and both life and non-life insurance continued within the overall group; and (3) insurers that are either life or general insurers but not part of a group with a sibling of the other type.

Composite insurers have underperformed their counterparts that separated in terms of market share growth in both life and non-life insurance classes. At the same time, single class entities have had the largest challenges in maintaining a market share in either class suggesting that specialization is less effective than the flexibility in breadth of product manufacturing capacity and the ability to meet a broader range of client needs.

Profitability has been equally differentiated. Overall, profit is similarly distributed to premium share for non-life insurance suggesting limited difference across groups. Whilst each group is profitable in total for non-life insurance business, there are a number of loss making companies, and the single class insurers are more likely to be unprofitable than the others. Single class life insurers have, as a group, been making losses although this is partly attributable to some new investment initiatives. Life entities in insurance groups have outperformed, and composites have been profitable on average but less so.

[56] Insurance Act section 32 (2)

Table 11: Comparative Performance - Composite Insurers and Others

	Composite insurers that did not change	Single Class Entities	Groups with both entities (ie composites that separated but remained in the same group)
Non-life insurance market share			
- 2006	30%	42%	28%
- 2016	26%	34%	41%
Non-life percentage of profits	23%	34%	43%
Non-life proportion of insurers making losses in the category	40%	57%	38%
Life insurance market share			
- 2006	24%	25%	50%
- 2016	24%	12%	63%

The outperformance of separated entities is consistent with findings in other jurisdictions particularly where separation has led to stronger life insurance growth. After dividing composites, other countries have seen an invigorated life insurance sector in terms of growth and development that was hindered under the composite regime. Encouraging insurance that will build assets and, ultimately, institutional investment would therefore be consistent with an absence of composites.

The Kenyan case also highlights the relevance of insurance groups and their potential strength.

It is notable that, during 2017, two of the composites that had not split before did convert to separate entities (Cannon Assurance Limited transferring its life business to Metropolitan Cannon Life, and Madison Insurance Company transferring its general insurance business to Madison General).

As a result, of this analysis and the challenges of competitive settings, the broader work in this area will further investigate how market structure may be conducive or otherwise to development. Further work on this issue, including additional cross-country analysis, will be provided in due course.

Table 11 supports the analysis.

Insurers and their investments

The insurance sector in Kenya is a conservative investor and plays a limited role beyond its direct investment function. It has successfully been accumulating assets as the life insurance product line grows in particular. However, insurers do not see the opportunities in infrastructure and other financing to be compelling compared to their current asset choices, and they do not see themselves as actively providing material activity in other markets. Instead, they see themselves as “buy and hold” asset managers.

Table 12: Insurer Asset Trends (billions)

Year	2012	2013	2014	2015	2016	2017
Non-life Insurance Investments		111.05	128.10	141.06	144.22	155.79
Life Insurance Investments		185.28	226.91	249.17	281.09	328.01
Total Investments		296.32	355.01	390.23	425.30	483.80
Total Assets)	311.22	366.25	430.54	478.75	528.75	590.95

Source: IRA Annual Reports

The more investment-oriented life insurance sector has been growing in terms of premium and, as a result, is also accruing assets. Assets have grown at a compound annual rate of 15.8 percent over the last four years when premiums have almost doubled. Assets in the life insurance sector make up 2/3rds of the total for the sector but it is yet to become a fully effective investor in support of infrastructure and other long-term instruments.

Insurers focus their investments in government securities and investment property. They hold some listed and unlisted shares although exposures are lower than might be expected, and term deposits where exposures are higher than might be expected.

Table 13: Asset Mix for Insurers 31 December 2016

Non Life Insurance			Life Insurance		
	KES '000s	percent		KES '000s	percent
Land and Buildings	5,810,284	2.7%	Land and Buildings	3,347,882	1.1%
Investment Property	35,573,549	16.5%	Investment Property	37,671,247	12.0%
Other Fixed Assets	2,374,882	1.1%	Other Fixed Assets	1,586,122	0.5%
Government Securities	55,643,149	25.8%	Government Securities	155,128,186	49.5%
Other Securities	1,057,927	0.5%	Other Securities	7,647,027	2.4%
Investment in Related Companies	8,396,430	3.9%	Investment in Related Companies	6,327,541	2.0%
Corporate Bonds	4,113,404	1.9%	Corporate Bonds	10,725,365	3.4%
Commercial Papers	109,802	0.1%	Commercial Papers	279,530	0.1%
Debentures	-	0.0%	Debentures	-	0.0%
Ordinary Shares - Quoted	9,559,663	4.4%	Ordinary Shares - Quoted	26,459,638	8.4%
Ordinary Shares - Unquoted	3,552,828	1.7%	Ordinary Shares - Unquoted	4,985,571	1.6%
Preference Shares - Quoted	521	0.0%	Preference Shares - Quoted	1,279	0.0%
Preference Shares - Unquoted	-	0.0%	Preference Shares - Unquoted	-	0.0%
Loans Secured & Unsecured	2,472,856	1.1%	Loans Secured & Unsecured	4,984,806	1.6%
Mortgages	1,695,845	0.8%	Mortgages	2,687,922	0.9%
Term Deposits	22,042,251	10.2%	Term Deposits	24,187,801	7.7%
Cash and Cash Balances	5,010,989	2.3%	Cash and Cash Balances	1,990,678	0.6%
Outstanding Premiums	38,005,087	17.7%	Outstanding Premiums	4,291,437	1.4%
Other Receivables	5,536,012	2.6%	Other Receivables	2,552,906	0.8%
Other Assets	7,334,763	3.4%	Other Assets	17,119,239	5.5%
Intangible Assets	6,981,902	3.2%	Intangible Assets	1,501,864	0.5%
TOTAL	215,272,144	100.0%	TOTAL	313,476,041	100.0%

Despite the leaning toward certain assets on the averages, individual insurers show values that vary widely. Different insurers are oriented to one of other of the main assets classes shown in Table 13 being property, government securities, and bank deposits.

Each of these asset classes, and the alternative of additional investment in securities markets, was explored and the current orientation appears to be largely consistent with insurer capacity, liability constraints, and the relative return opportunities.

Official interest rates have remained stable in recent times. Interest rates on average bank deposits are a healthy 8 ¼ percent at the time of writing, up nearly 1 percent from a year earlier. Treasury bills offer similar rates, providing a real rate of return in excess of 3 ½ percent currently.

Bank deposit rates have become more attractive in recent years. Commercial bank lending rates are capped at no more than 4 percent above the Central Bank Rate. Since this requirement has been introduced it has reduced high bank spreads, provided a strong transition mechanism for monetary policy but also risks the potential for constraints on credit provision. The introduction of the cap also coincided with a change in savings account interest rates (See Table 14).

Table 14: Selected Interest Rates (percent)

	2012	2013	2014	2015	2016	2017
Central Bank Rate		8.5	8.5	11.5	10.0	10.0
91-day Treasury Bills		9.52	8.58	9.81	8.44	8.01
Commercial bank average rate on loans and advances		16.99	15.99	18.30	13.69	13.64
Commercial bank average rate on deposits		6.65	6.81	8.02	7.33	8.22
Savings deposits		1.58	1.85	1.56	6.37	6.91

Source: KNBS

The Capital Markets Authority oversees investment markets including the Nairobi Securities Exchange (NSE). It reports that market capitalization of KES 2,373 billions covers 65 listed entities[57] including six insurers alongside investment firms, banks, and commercial undertakings. Insurer investments would prudently not consider all of these 65 entities to be potential investments given the sector overlap.

The market also provides a market for corporate and government fixed interest. Market capitalization has shown solid growth (refer Figure 9). As a source of capital raising, the market has been effective but insurers are skeptical about it as a longer term investment. Some noted that the market moves with political cycles and is, otherwise, not offering the value to compete with real estate and fixed income investment options.

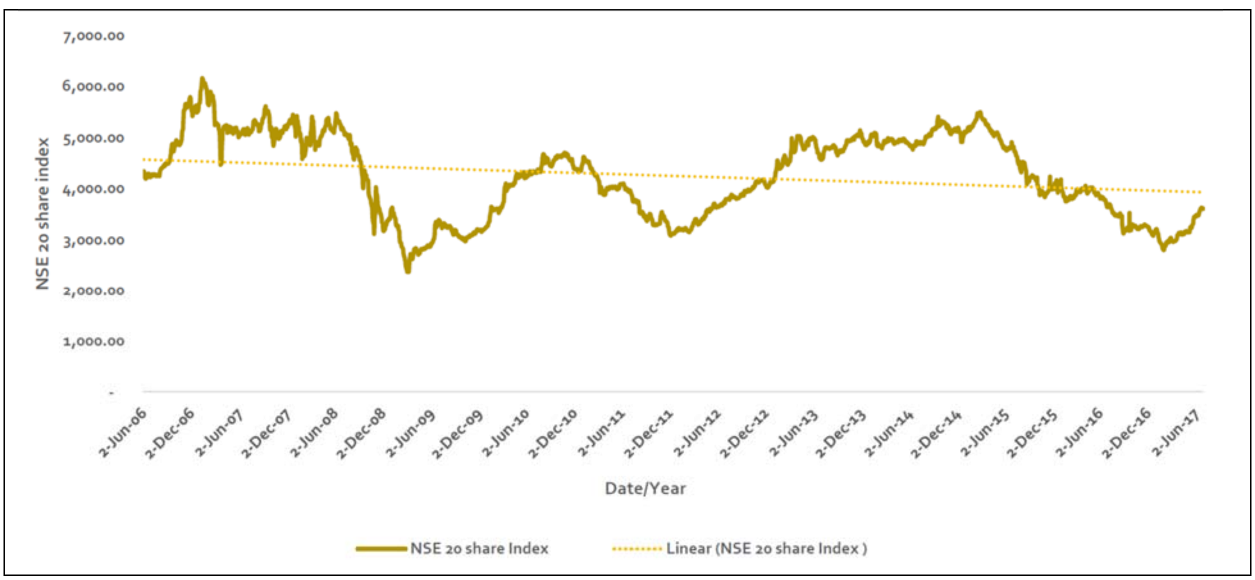
[57] Source NSE website as at 8 November 2017.

Figure 9: Kenya's Daily Securities Market Capitalization (June 2006 - June 2017)

Source: NSE, CMA

Whilst market capitalization has been growing, the performance of the index is less spectacular. Price level performance measured by the NSE-20 index has not been spectacular (see Figure 10). Insurer stakeholders are skeptical of the merits of local equity investment based on the limited actual investment returns shown or on their own experiences. They have a strong preference for the control directly afforded to them from direct investment in real estate and private company placements.

Figure 10: Kenya's Daily NSE 20-Share Market Index (June 2006 - June 2017)



Source: NSE, CMA

The IRA is empowered to issue investment guidelines[58]. These are not currently considered to be a binding constraint on insurers given their conservative investment preferences. Insurers must develop an investment policy subject to these guidelines and submit it to the IRA from time to time. The Insurance Act specifies that some assets are not "admitted"[59]. It also requires assets to be held in the name of the insurer, limiting some outsourcing options[60].

There is some flexibility provided to insurers to select their asset mix based on a sound investment policy. Although this has been implemented for several years, some investment portfolios still reflect some historic asset acquisitions. There is scope for insurers to invest more effectively through better developed investment strategies and policies, particularly given their surprising use of bank term deposits to the extent that they do. The draft IRA Strategic Plan notes regarding investments that "80.4% was held in income generating investments". The extent that investments should be "income generating" or liquid or of a particular asset quality does see variation in practical execution suggesting that there is a disconnect between very high level investment goals and tactical execution.

As a result, it is true that insurers are not playing their potential role as institutional investors or facilitating infrastructure. Although their limited size and the lack of packaged opportunities for insurers to play a role is one issue, insurer appetites are limited and their current investment approach appears reasonable given management capacity and priorities.

Risk Management, Financial Resources and Solvency

Risk management approaches in firms varies as would be expected given that they have different expectations placed on then from shareholders, different constraints from the nature of their business, and are different sizes, suggesting a degree of proportionality. However, based on interviews during the mission and observed statements of practice, constraints to more developed risk management approaches are heavily due to competitive pressures and the consequent lack of profitability.

The market context suggests that some risk management efforts could be upgraded in some insurers. In particular, the opportunities presented by regional expansion appear to have gotten ahead of group risk management practices in some cases. Proportionate approaches will be needed given that the insurance groups tend to still be small and have limited capacity, and the markets where they are expanding are also relatively close and have many similarities.

Accounting, Audit, Actuarial and Technical Skills

Accounting and statistical reporting rules are set out under the Insurance Act separately accounting for each class of business, invoking IFRS, and generally applying Kenyan accounting standards. These standards leverage the combined work of the International Accounting Standards Board (IASB) and the

[58] Insurance Act section 48.
[59] Insurance Act section 1 and section 42.
[60] Insurance Act section 47.

Institute of Certified Public Accountants of Kenya. The reports are regularly and transparently reported by the insurers and the IRA. Quarterly reports are not audited, and are submitted within 30 days. Annual returns are audited by an auditor approved by and who can be removed by the IRA. Provisioning is subject to IRA rules[61].

A statutory fund system is imposed for life insurance by the Insurance Act including an "trustee-like" obligation on directors and principal officers and constraining the use of assets of the fund[62].

The Actuarial profession in Kenya is relatively strong. The International Actuarial Association recognizes the Actuarial Society of Kenya (TASK) as a full member admitted in 2008 and 24 resident actuaries [63] although the TASK notes that it has over 300 members in and outside Kenya. The Insurance Act recognizes actuaries who are fellows of the Institute and Faculty of Actuaries (UK) and the Society of Actuaries (USA) along with such others are approved by the Commissioner[64]. Life insurers are obligated to have an annual actuarial investigation[65].

The IRA has been actively encouraging industry capacity building with a focus on actuarial capacity by establishing a scholarship program to assist students to study in London. This program has been credited with providing substantial momentum to a solid growth in actuarial capacity in Kenya. Local actuarial courses are now available. The IRA is continuing support actuarial scholarships at the Cass Business School (UK).

However, actuarial resources continue to be constraining and more are and will be required. Actuarial roles are becoming more senior, extending beyond traditional roles, and actuaries are increasingly engaged in supporting insurers outside of Kenya, particularly as they increase their requirements for actuarial input under their own laws.

Auditors are regulated under the Companies Act. The Insurance Act defines an auditor as a person qualified under the Companies Act without other constraints[66]. The Kenyan Institute of Certified Public Accountants has been established since 1978 and now has close to 20,000 members. It operates as a fully functional professional association and member of the international federation of accountants. Auditors are approved and can be removed by the IRA.

Beyond actuaries and auditors, the industry tends to recruit entry level staff and to train them internally on the job. The Insurance Institute of Kenya is taking up an opportunity for staff to get training and development. A **College of Insurance** is established by the Insurance Act. The College is funded by an Insurance Training Levy paid into an Insurance Training and Education Trust[67].

Consistent with many other aspects of insurance sector development in Kenya, there are a number of initiatives addressing an issue, and progress is being made. Technical training and development is one of these areas. Coordination between these initiatives is an obvious challenge and opportunity.

[61] Insurance Act section 54 (2).
[62] Insurance Act section 45 and following.
[63] International Actuarial Association www.actuaries.org and search of member directory 22 November 2017.
[64] Insurance Act section 1.
[65] Insurance Act section 57
[66] Insurance Act Section 1 references section 161 of the Companies Act.
[67] Refer Insurance Act sections

Technical data is a common challenge that also exists in Kenya although there are some important differences. Mortality and morbidity statistics and tables have been the subject of several efforts with varying success. Projects to develop tables were initiated but ran into data challenges collecting information from insurers in a form that allowed credible tables to be developed. Still, there are some tables and the potential for more to be developed over time remains in place.

Other studies, particularly those relating to financial inclusion, did produce very useful data but missed the opportunity to interpret them and disseminate them in an "insurance focused" way. As a result, there is a considerable data set available that is not accessed by insurance executives to action simply as it needs to be communicated and interpreted for them. This is a substantial opportunity and a "low hanging fruit" in the recommendations in this report.

Reinsurance

Reinsurance risk for ceding insurers in Kenya is not reported as presenting challenges. The localisation rules seen elsewhere are more of a concern to Kenyan reinsurers wishing to bring inward risk than to their placement of outward reinsurance.

Reinsurers benefit from compulsory cessions and have been profitable. As noted in Table 6, there are four reinsurance companies licensed in Kenya[68] that also service a wider African client base, and reinsurance coverage is readily available to meet risk retention needs. In addition, three regional reinsurers operate under regional charters. Two of these regional reinsurers receive mandatory cessions of 10% (ZEP-Re / PTA Reinsurance) and 5% (Africa Reinsurance Corporation) whilst the locally licensed Kenya Reinsurance Corporation received a mandatory 20% cession. The Kenya Reinsurance Corporation, originally created under the insurance act, was converted to a limited liability company by the Kenya Reinsurance Corporation Act in 1997. In addition, two global reinsurers and three reinsurance brokers have liaison offices in Nairobi.

Catastrophic risk accumulations are limited, in part, due to the lack of penetration beyond Nairobi. (See Natural catastrophes on page 19 for more information).

The IRA is required to approve reinsurance arrangements as being appropriate[69]. This approval has to take into account the need for an adequately documented contract, and that retentions are neither too low or too high and a wide range of financial issues associated with the underlying risk and the financial standing of the ceding insurer. The Minister may exempt an insurer from this approval requirement. Reinsurance retentions are shown in Table 15.

Table 15: Reinsurance Retentions and Cessions

	2012	2013	2014	2015	2016	2017

[68] Continental Reinsurance, East Africa Reinsurance, and Kenya Reinsurance Corporation and most recently, the Ghana
[69] Insurance Act section 29.

Gross premium income	111,911,370	135,384,923	157,732,058	174,064,645	196,635,836	209,001,289
Net premium income	87,475,983	105,013,409	126,333,481	140,003,552	158,362,431	165,852,034
Retention Ratio (%)	78.16	77.57	80.09	80.43	80.54	79.35
Cession rate (%)	21.84	22.43	19.91	19.57	19.46	20.65
By class of business (%)						
Aviation					96.87	99.2
Engineering					74.98	79.0
Fire Domestic					21.33	29.0
Fire Industrial					75.74	77.5
Liability					43.18	49.4
Marine					40.42	44.4
Motor Private					3.03	6.5
Motor Commercial					3.10	4.6
Motor PSV					2.18	
Personal Accident					26.43	44.5
Theft					32.63	29.8
Worker's Compensation					5.76	6.5
Medical					30.95	31.2
Miscellaneous					49.11	51.5

Source: IRA Annual Reports

In 2012, minimum paid up capital levels were increased for reinsurers. No change in reinsurer representation was anticipated or eventuated.

Solvency

The IRA has been implementing a risk-based approach to supervision. This initiative is showing early signs of enhanced risk management in firms but their response to some issues, including the challenges of adequate pricing controls, is consistent with only a very early stage of insurer internalization of the risk based supervisory paradigm. Further implementation steps are suggested as part of the recommendations in this report.

The Insurance Act imposes a requirement to maintain a margin of solvency. It provides for a set of admitted assets and some defined inadmissible assets including intangibles, unsecured loans to intermediaries, pre-paid expenses etc.

Table 16: Insurer Capital Trends

Year	2012	2013	2014	2015	2016	2017
Total Shareholder's funds (billions)		100.96	114.14	125.83	134.46	147.26

Source: IRA Annual Reports. Note includes reinsurers

The IRA is introducing Risk Based Capital and Solvency requirements. These requirements are being phased in and are sensible for the market. The implementation will further support the implementation of RBS as the IRA engages industry players, addresses implementation and transitional issues that may arise, and as results are integrated into both supervisory and internal insurer systems.

Some stakeholders have suggested a pause, and an increase in the absolute nominal minimum capital requirement along with a range of other measures to address the challenges of competition and poor product profitability. These steps would seem to be a step back to compliance based supervision and an adminssion that insurer management was at a lower level of capacity than it should be. It would also, based on emerging experience in other countries, be both counterproductive and unlikely to actually succeed in achieving the objectives. Further, such a step is likely to have negative consequences for sector development in the longer term.

Distribution trends

Insurance is distributed in Kenya through agents, brokers and direct channels[70]. Compared to other jurisdictions, brokers are unusually strong in life business and direct business is weaker than might be expected for non-life business.

Insurance intermediaries are recognized under the Insurance Act. Intermediaries are broadly defined along with agents and brokers. Agents are defined as acting for an insurer or a broker. Brokers under the Insurance Act specifically exclude reinsurance brokers if they do not have a resident representative or place of business in Kenya[71]. Bancassurance was formalized but has not made significant inroads.

Table 17: Numbers of insurance intermediaries

	2012	2013	2014	2015	2016	2017
Insurance Agents	4,862	4,631	4,942	6,428	7,720	9,320
Bancassurance Agents	0	0	0	19	26	28
Insurance Brokers[72]	170	187	175	144	214	232
Medical Insurance Providers	24	29	26	22	32	31

Source: IRA Annual Reports

[70] The IRA Annual Report 2017 notes that agents generated 46% of life insurance down from 51% in 2016, and 46% of non-life insurance business largely unchanged from the 45% in the year before. Direct business represented 22% of life business and only 12% of non-life business compared to 21% and 14% respectively the year before. Brokers produced 32% of life insurance, up from 28% in 2016, and 42% of non-life business largely unchanged from the previous year's 41%.
[71] Insurance Act section 1.
[72] Includes both insurance brokers and reinsurance brokers.

To enhance the quality and number of insurance agents, the IRA has actively engaged in training potential intermediaries through the ECOP program. This program has trained over 3000 agents in partnership with the College of Insurance with a particular focus on expanding reach outside Nairobi. It is widely recognized by stakeholders that this initiative was valuable and would not have taken place without the leadership of the IRA.

As noted when discussing internal regionalization, **the arrangements for distribution in Kenya seem to remain stubbornly oriented toward an agency-based system**. Such a system has its limitations. The IRA initiative has helped to increase the presence of agents but, at the same time, perpetuated the reliance on that system. The limited uptake in bancassurance and mobile insurance highlights the underutilized potential for alternative distribution to better reach underserved customers.

Kenya as a regional hub

Insurance markets are not determined entirely by political borders. Looking beyond lines drawn on maps for other than insurance purposes might give some useful insight, particularly in the context of Kenyan insurance market participants and challenges. To do so helps to balance the solutions that can be considered and avoid considering those that might actually be relevant only locally but counterproductive if placed in a broader context.

The Kenyan insurance market is larger than all other East African Community (EAC) countries put together. Insurance penetration is also far greater than the other countries, all of which are below one percent of GDP. Per capita premium is also far higher, and notably each of the other EAC countries are more consistent with each other than they are with Kenya. As would be expected, the Kenyan growth is slower than the rest of the countries in the region given that they are growing off a lower base. Table 18 shows comparative statistics for the region and further afield.

Table 18: Comparison of Kenyan Data with other EAC Member Countries

	Selected Jurisdictions									
	Kenya		Burundi		Rwanda		Tanzania		Uganda	
year to ...	2016		2015		2015		2014		2015	
	Level	**Growth pa**	**Level**	**Growth pa**	**Level**	**Growth pa**	**Level**	**Growth pa**	**Level**	**Growth pa**
Premium in local currency										
Life insurance	73,519.18	18.44%	11,182.84	17.69%	9,997.00	17.38%	60,419.00	22.75%	99,852.14	33.40%
Non life insurance	123,116.65	15.36%	25,724.24	32.45%	44,486.00	22.08%	493,981.00	18.59%	512,298.88	18.82%
Total	196,635.83	16.45%	36,907.08	26.79%	54,483.00	21.13%	554,400.00	19.00%	612,151.02	20.60%
Premium in USD										
Life insurance	724.54	15.32%	7.11	12.05%	13.87	12.50%	36.53	17.34%	30.81	23.20%
Non life insurance	1,213.33	12.33%	16.35	26.11%	61.70	17.01%	298.66	13.36%	158.09	9.73%
Total	1,937.87	13.39%	23.46	20.72%	75.57	16.10%	335.19	13.76%	188.90	11.38%
Insurance Penetration										
Life insurance	1.06	0.45%	0.23	3.36%	0.17	4.13%	0.08	-0.20%	0.13	13.18%
Non life insurance	1.77	-2.16%	0.54	16.33%	0.75	8.31%	0.62	-3.59%	0.65	0.81%
Total	2.83	-1.23%	0.77	11.36%	0.91	7.46%	0.70	-3.25%	0.77	2.32%
Insurance Density (in local currency)										
Life insurance	1,555.96	15.36%	1,000.25	13.82%	876.93	16.20%	1,190.29	19.10%	2,558.34	29.11%
Non life insurance	2,605.64	12.36%	2,300.92	28.10%	3,902.28	20.86%	9,731.70	15.06%	13,125.77	15.00%
Total	4,161.60	13.43%	3,301.17	22.62%	4,779.21	19.92%	10,921.99	15.46%	15,684.12	16.72%
Insurance Density (in USD)										
Life insurance	15.33	12.32%	0.64	8.37%	1.22	11.37%	0.72	13.85%	0.79	19.24%
Non life insurance	25.68	9.41%	1.46	21.96%	5.41	15.84%	5.88	9.99%	4.05	6.21%
Total	41.01	10.44%	2.10	16.75%	6.63	14.94%	6.60	10.37%	4.84	7.80%

Source: AXCO for comparative purposes.

In the context of the EAC, the Kenyan insurance sector is a clear leader and already acts as the regional hub. This may help insurers to support a broader business on a regional basis and achieve economies on a that level hence slowing the imperative of consolidation within the Kenyan market.

Aside from the value of a domestic base market size and technical and market headquartering, regional hubs also tend to benefit from other infrastructural components such as transportation linkages, banking and legal frameworks. Kenya also ticks many of these boxes relative to others in the region.

A mapping effort of insurance entities in Africa has revealed that there are three main regional hubs of which Kenya is the entry point for the EAC[73]. Many Kenyan insurers have operations in other EAC countries. No insurers domiciled in other countries in the EAC are operating subsidiaries or branches in Kenya. Many of those other insurers in the region get their actuarial and other professional services and reinsurance from offices in Nairobi. There is already a regional market – the key is to work with it rather than ignore it and develop more silo based responses.

Some of the challenges that the local market is facing would take on a different perspective in this context. Interpreting statistics and metrics based on country borders drawn for different purposes requires a second look.

To advance and leverage this regional opportunity as part of the solution to domestic weaknesses in the sector and as a vehicle that can then release scope for innovation and development, the IRA has a particular advantage. The role of the IRA under IAIS standards as a convenor of supervisory colleges for regional groups is a useful point of entry for advancing this work. This would benefit both the Kenyan market and the broader EAC initiatives. The IRA would benefit to advance this work with the assistance

[73] See Thorburn (forthcoming), *Regional Markets that create Regional Solutions*.

of targeted technical assistance to facilitate colleges in the near term and to provide support to research key topics that would be on the college agendas.

Regulation and Supervision – how has it supported development?

This section discusses the regulatory and supervisory settings for the insurance sector in Kenya to the extent that they have not already been elaborated above in the specific market context chapters. This includes general discussion on the laws, supervisory arrangements, and practices particularly regarding intervention and enforcement.

The insurance sector is regulated through the *Insurance Act Chapter 487*, which commenced in 1987. The Insurance Act defines "Insurance Business" broadly but carves out the business of friendly societies, trade unions and employee associations, and funeral and burial schemes[74]. The Insurance Act is actively managed and has been subject to ongoing amendment since it commenced. A fuller timeline is included in Table 19.

Table 19: Key Milestones in Regulation and Supervision

1987	Insurance Act comes into force along with accompanying regulations	
1997	The Kenya Reinsurance Corporation Act passes. (effective date August 1998)	The Kenya Reinsurance Corporation, originally created under the insurance act, was converted to a limited liability company
2006	*Insurance Amendment Act of 2006* passes.	Creates an autonomous IRA
2006	The *HIV and AIDS Prevention and Control Act*.	Prevents a range of service providers including insurers from requiring a person to undergo an HIV test and requires policies to cover to reasonable limits without requiring such tests.
2007	IRA becomes operational	
2011	The Unclaimed Financial Assets Act proclaimed	Section 7 requires the IRA to cooperate with the Unclaimed Financial Assets Authority (UFAA).
2012	Insurance Regulations amended by *Insurance (Amendment) Regulations of 2012*.	
2012	Insurance (Amendment of Schedule) Order of 2012	Amends the paid-up capital required of reinsurance companies.
2013	The *Finance Act (No 57 of 2012)* amends the *Banking Act Chapter 488* and the *Insurance Act Chapter 487*.	Banking amendment intended to cater for bancassurance by allowing the definition of banking business to include activities as the "central bank may describe".

[74] Insurance Act section 1.

		It also amended the insurance supervisory and statutory returns by insurers
2013-2015	The Finance Act No 38 of 2013 amended the Customs and Excise Act levying excise duty on insurance companies which was later exempted in 2015	
2014	Insurance Amendment Act No 1 of 2014	Largely about EAC integration. The requirement for 1/3rd local ownership was expanded to 1/3rd EAC ownership.
2015	Finance Act No 14 of 2015	Amended capital requirements introducing increases for life, non life and reinsurance.
	Localisation of Marine Insurance. Development of a Micro-insurance policy Training of insurance agents under the Executive Certificate of Proficiency in Insurance (ECOP) program Encouraging the use of technology in transacting insurance business Authorizing the use of new distribution channels Embraced the development of Takaful Recognized the importance of index-based insurance for agriculture	Measures taken by to increase insurance penetration
2016	Insurance Amendment Act 2016	Effective January 2017, this Act changed the basis for solvency calculations for life and non life insurers to something prescribed by the IRA, with actuarial input to reserving etc.
2017	Statute Law (Miscellaneous Amendments) Act 2017	- Section 71A ensures that banks cannot prescribe an underwriter or broker for credit life insurance. - Increased fines - Postponed capital reform from 2018 to 2020. - Added group wide supervisory requirements - Dropped requirement to renew registration annually

Amendments regarding EAC membership have largely been one way to the benefit of local Kenyan insurers. This is not the only situation where liberalization has actually encouraged expansion elsewhere when it literally invites new entities to come to the local market[75].

Enforcement provisions include interventions directed at requiring information on all accounts and returns provided[76], on assets or liabilities to support their value for solvency margin assessment purposes[77]. The IRA can direct that a return be corrected if it is inaccurate or defective[78], an asset be realized if it is unsuitable[79], and a return rejected if inquiries for information requested is not provided, responses are inadequate or are not corrected[80]. It can require an auditor to provide additional information in relation to an audit or to do a special audit or investigation[81]. Fines are available for late submission of accounts and statements[82], false statements on accounts or returns[83], and are payable to the policyholder's compensation fund.

The supervisory authority, the IRA, was established in 2007[84]. Prior to it's creation, insurance was supervised by a Commissioner of Insurance, with a dedicated department within the Ministry of Finance. The Commissioner became the CEO of the IRA. The IRA mandate covers promoting a fair safe and stable insurance sector, protecting policyholders and promoting the development of the sector[85]. As such, it is one of many insurance supervisors with a dual mandate for both prudential issue and sector development. The IRA develops a strategic plan on a five year cycle that compliments the broader government initiatives and policies, in particular the current plan recognizes Kenya Vision 2030, and the financial sector goals in the Medium Term Plan with particular attention to access, efficiency and stability.

The IRA has many of the features that the IAIS considers necessary to reflect an independent authority. The IRA has a board constituted by a chairman, the commissioner (non-voting), four ex-officio members[86], a nominee of the insurance institute and four other independent members. Board members are required to have relevant skills, not have been involved in a previously failed entity, free of fraud and dishonesty convictions, and cannot be associated with regulated entities when appointed[87]. Day to

[75] When Costa Rica joined DR-CAFTA, the insurance industry was liberalized from a state monopoly. Although the treaty invited entry from other DR-CAFTA states, the liberalization was not specific in the enacting law. The result was that there were new entrants as expected. Counter to the DR-CAFTA source of the change, all new entrants came from countries that were not DR-CAFTA signatories. In a similar way, although the EAC expansion allows increased ownership from outside Kenya, the other reasons that Kenya forms a hub have meant that Kenyan insurers have expanded more than been the victims of expansion.
[76] Insurance Act section 62.
[77] Insurance Act section 44.
[78] Insurance Act section 63.
[79] Insurance Act section 49.
[80] Insurance Act section 62 and 63.
[81] Insruance Act section 56 (6).
[82] Insurance Act section 61
[83] Insurance Act section 66.
[84] The IRA is "established" by section 3 of the Insurance Act.
[85] See Insurance Act section 3A where the mandate is elaborated.
[86] The ex-officio members are the Permanent Secretary of the Ministry of Finance, the CEO of the Retirement Benefits Authority, the CEO of the Capital Markets Authority, and the Governor of the Central Bank of Kenya.
[87] The board is established under section 3B of the Insurance Act.

day leadership of the IRA falls to the Commissioner appointed by the Board for renewable three year terms[88]. The IRA is in control of many of its own staffing and remuneration policies and is funded by a levy on insurers of one percent of premium income[89]. In addition, there are a range of license fees and penalties, and interest income that supports the operations of the IRA, and it is possible that the parliament may make a grant toward expenditure. All but 10 percent of any surplus after expenses is transferred to the consolidated fund. The IRA is empowered to "formulate and enforce standards" and to "issue supervisory guidelines and prudential standards"[90].

The IRA issues circulars that clarify operational issues.

In many respects, the IRA can make enforceable orders[91], but these require the positive affirmation of the parliament to avoid being deemed to be void.

Confidentiality provisions are provided in the Insurance Act. These provisions explicitly cover information collected during inspections[92].

The minister is involved in appointing board members or, in the case of the chair, recommending the appointment to the President, being consulted on board remuneration[93], approving the annual expenditure estimates and any upward revision of these estimates, and authorizing additional one-off expenditures outside the estimates[94]. In most cases, actions of the Commissioner under the Act may require the concurrence of the Board but directions arising from an investigation of an insurer concerning closure of an insurer to new business or restricting renewals require the approval of the Minister[95]. The Minister may also exempt insurers from certain requirements such as those relating to the need to approve reinsurance arrangements[96], and may direct the IRA to inspect an insurer[97]. The Cabinet Secretary is empowered to direct that assets of an insurer can be held by a person as trustee for the insurer and thence released with the consent of the Minister[98]. Ultimately, consistent with the IAIS Insurance Core Principles, the more operational of these powers should be transferred to the Board of the IRA.

The IRA takes a risk based approach to supervision[99], "geared towards allocating regulatory resources in the most efficient and economic manner". The RBS approach continues to be enhanced and developed and is very much a work in progress, and one that should continue to be advanced progressively. This will encourage the sector's own capacity as it develops.

[88] The Commissioner is appointed under section 3E of the Insurance Act.
[89] In 2016 this income was reported as KES 1,426,318,831.
[90] Insurance Act section 3A (b) and (g).
[91] For example, for initial capital for licencing under section 23.
[92] Insurance Act section 67A (3)(c).
[93] Insurance Act section 3D
[94] Refer Insurance Act section 4A (4).
[95] See Insurance Act section 17 (3).
[96] Refer Insurance Act Section 29 (5).
[97] Insurance Act section 67A.
[98] Insurance Act Section 47.
[99] See reference in IRA Annual Report 2016 for example.

A regular program of onsite inspections of insurers is conducted[100] (refer Table 20).

Table 20: Numbers of Supervisory Onsite Inspections Conducted

			2016	2017
General Insurers			21	
Life Insurers			15	
Composite Insurers			6	
Total			42	

Some elements of the insurance law are more aligned to compliance-based approaches and could be amended to shift detailed lists of obligations into subsidiary rules issued by the IRA. These include:

- The list of documents that need to be provided in support of a new insurance application in section 30;
- The list of inadmissible assets in section 42, although the issue is generally already delegated;
- The list of items that auditors should include in their annual certificate in section 56 (2);
- The list of disqualifications for being an insurer's auditor in section 56 (8);
- The content of actuarial investigations and valuation reports under sections 57 and 58;

The IRA is developing a group-wide supervisory approach. It is an active collaborator domestically, regionally and internationally.

The IRA is subject to secrecy provisions that cover both current and former commissioners and staff, with gateways to facilitate effective communication with investigators, other regulatory agencies who can similarly protect the information, and matters that are in the public interest[101]. The IRA can conduct inquiries and share information with other regulatory authorities with specific authority under the Insurance Act[102]. Further, it can actively assist other regulators beyond the provision of information by using other powers when it receives a request that is considered desirable, expedient, in the public interest and useful to the requesting agency[103].

The Insurance Act contains a range of investigative and intervention powers:

- To require the provision of information, books and papers by notice from any person who might have them[104];

[100] Inspections are empowered under section 67A of the Insurance Act.
[101] Insurance Act section 18
[102] Refer Insurance Act 3A(1)(h)
[103] Insurance Act section 3AA particularly subsection (3) on criteria.
[104] Insurance Act section 7. Failure to comply can lead to a fine of KES 200,000 or imprisonment for up to 12 months or both.

- To make a range of directions[105], including with respect to reinsurance, assets, setting provisions, increasing capital, transactions, new business or renewals, and more generally;
- to appoint an investigator with powers to examine records and people, to require their compliance with requests, and protect that compliance[106];
- (in the case of a long term insurer) require a transfer of business or, in the event that the company does not produce one, develop such a transfer directly, and apply to the court directly to have the insurer wound-up[107];

The IRA has been progressively implementing a "TCF" (Treating Customers Fairly) framework that addresses how insurers should treat customers in the course of doing business. The framework is comprehensive, expressed under six key headings: Corporate culture, product design and marketing, clarity of information, suitable advice, policyholder's reasonable expectations, and post sale access. They have supported the implementation with a self assessment tool for insurers introduced in 2016.

It includes contact information for a help desk, an Insurance Fraud Investigation Unit, and the Policyholders Compensation Fund (email and phone) in the annual reports, and maintains an extensive and informative website.

The IRA is empowered to oversee insurance contract wordings and has approved standard wordings for most contracts in use in Kenya[108]. It also has power to approve tariffs and rates for all classes of insurance[109].

The IRA reports numbers of complaints have been increasing. The main types of complaints refer to claim settlement delays, underpayment of claims, claims denied and product mis-selling.

Table 21: Complaints Received

			2016	2017
General Insurers			60%	80%
Life Insurers			40%	20%
Total Number of Complaints received			1,082	2,126
Percentage of complaints resolved			70%	56%

[105] Insurance Act section 8 provides powers to direct that reinsurance contracts be modified on renewal or potentially not renewed at all. Non compliance can lead to a fine of KES 10,000 and imprisonment of up to 12 months and ongoing noncompliance can lead to a fine of up to KES 200,000 per day. The Insurance Act section 9 has a broader set of causes including reasonable belief or concern by the Commissioner and petition from a range of interested parties including policyholders, shareholders, or other regulatory authorities. Section 17 provides for a general power of direction arising from an investigator's report.

[106] Insurance Act section 9 provides for the appointment. Section 12 provides powers. Section 13 provides protection.

[107] Insurance Act section 10.

[108] Source: AXCO. Also Insurance Act Section 5(1)(b) and (c) empowers the commissioner to direct insurers regarding contract wording.

[109] Insurance Act section 5(1)(d).

Moving forward: Findings and recommendations

There is a significant opportunity for the insurance sector to better support and contribute to the economic development, its own development, and the better well-being of all in Kenya. To do so, however, it is critical that it takes the opportunities that it has. Stakeholders can become partners to achieve this great potential.

We have grouped our findings around four key themes, but they are largely overlapping as initiatives at a more detailed level contribute to more than one theme.

Innovation

To get closer to its potential in every dimension, things must be done differently. Some changes at the cutting edge of developments globally would appear to be able to be adapted to the Kenyan market. Continuing to do the same things will result in the same outcomes – this is widely accepted by stakeholders.

Innovation is one of the solutions to the competition challenge. By reaching the underserved market, insurers will find that their intense market fights over a small share of a small market become more manageable when looking at a larger market. The potential larger market in Kenya is materially double the current market but insurers are not well equipped to reach these clients without change.

- **It is recommended that the IRA create a high-level innovation committee chaired by a senior executive** to oversee innovation from the IRA perspective. This committee would have a broad mandate and would carry forward several of the other recommendations made here. The committee would have a high public profile, with the chair leading a range of public efforts to promote the initiatives it is taking.
- **The innovation committee should monitor innovation efforts in fintech and regtech around the world** through the IRA's engagement in international forums and other connections. It should also monitor experiences within Kenya to explore what lessons can be learned and disseminated without breaching corporate confidentiality concerns.
- **The innovation committee should host a seminar and symposia program**, using public events to disseminate experiences to Kenyan audiences through seminars and symposia events.
- **The innovation committee should run innovation competitions** that can stimulate the private sector and provide some partnership style seed funding for initiatives in targeted areas. These competitions may be broadly defined or may focus on particular areas of attention. Specific areas where it would seem immediately obvious would include the application of telematics type technologies and approaches to motor insurance with a view to improved performance and risk signaling, and the need to reach new customers in regional areas and in MSME markets. All initiatives should be sequenced with coordinated initiatives on promoting existing research and disseminating international experiences through the seminar program.

- **The innovation committee should maintain the "sandbox"** to ensure coordination between day to day supervisory teams and innovation initiatives. Innovation competitions may, for example, lead to sandbox entrants. As a result, direct supervisory staff and policy staff should be represented on the committee.

The insurance sector also should take ownership of innovation efforts. In some cases, although expected to be limited initially, access to ideas through innovation symposia and seminars may be enough for the internal innovation processes of insurers to kick in. For this reason, it is recommended that a series of innovation competitions with attached grants could be initiated by the IRA. Other development partners and private sector organizations could be "crowded in" as partners, donors, or contributors. A well-run competition maintains integrity through a level of transparency which also balances the need for confidentiality where appropriate so that unsuccessful applications may also have the option of proceeding to implementation in some cases. Importantly, to preserve the commercial incentives, successful competition applications would require a meaningful financial contribution to implementation from the applicant.

> ***Telematics***
>
> There are many reasons why telematics may be useful and relevant in the Kenyan market.
>
> The functional conditions for the “traditional” telematics systems are in place given the broad mobile coverage, high phone ownership, and functionality in vehicle models from 1995.
>
> Motor insurance performance has been challenging, suggesting an application of some telematics approaches could improve both financial performance and outcomes for clients as well as broader road safety.
>
> But recent enhancements in telematics, shifting from a reliance on plug-in devices to greater use of smartphone apps and other hybrid solutions also suggests that a broader application beyond that used in developed markets might also be relevant, beyond cars to motor cycles and other moving objects of any sort.
>
> To fit this insuretech concept into the recommended approaches, the innovation committee could:
>
> 1. include sessions on the range of technologies and their use in an innovation symposium;
>
> 2. concurrently prepare and publish a focused risk based supervisory report on the performance of motor insurance; and
>
> 3. follow this by a dedicated and targeted innovation grant competition.

Various innovations that range throughout the insurance value chain as well as from low- to high-tech may be used as separate streams for targeted implementation. The box here on telematics and similar applications improving motor insurance performance is presented to illustrate just one such opportunity. Others include, for example, new agricultural product and service opportunities, catching up on mobile insurance, and leveraging digital platforms to enhance customer engagement. Some innovations may be less high tech including making greater use of alternative distribution channels, adjusting products to meet the needs of underserved clients, or making alternative asset classes available to more insurers through some limited financial engineering.

There is a clear opportunity for insurers to become more engaged with MSMEs both in providing appropriate products and services and in financing. Efforts to scale up agricultural insurance and to provide products that extend beyond those directly owning agricultural assets could also be explored. The IRA could include Agricultural and MSME innovation competition as part of the recommended innovation encouragement plans. It may be that there could be interest in a particular stream that could even focus on female owned MSMEs.

The challenge is to embed more innovation into the operations and strategies of insurers and their current or potential partners. Currently, innovation is recognized but actual projects are not as widespread as they need to be. Through a combination of initiatives directly with respect to innovation and indirectly to address industry settings, the ultimate aim is to see a more invigorated and actively engaged insurance sector where the current recognition of the need to innovate is converted into more actual new activities[110].

[110] Initiatives include establishing an innovation management group at the IRA that provides a focus to innovation including hosting knowledge seminars, facilitating innovation knowledge sharing from other jurisdictions,

Customers

Consumer level initiatives can reinforce a number of key opportunities for development and improvement for the sector. These initiatives are proposed to responsibly support increased insurance penetration to underserved customers in Kenya, particularly those who are not fully included in the market. The projects will also support growth in the market, increasing the size and alleviating the stress created by excessive local competition conditions. A series of recommendations are made:

To support understanding the needs and circumstances of underserved customers:

- **Defined projects to revisit existing research data sets and prepare learning looking through an insurance lens should be initiated.** These reviews can be done progressively, leveraging existing data sets initially. They need to be presented in absorbable forms for dissemination to a range of sector stakeholders. It may be that some updating of studies could also be inspired but this can wait until the initial work is done and discussed so that it is more effective and focused than a simple redoing of a broad study. It is suggested that this would start with the financial access and financial diaries material.
- The MSME survey would also be usefully examined from an insurance development perspective but may need further data gathering to follow from it to understand this particular segment.

To support continued insurance awareness and insurance literacy:

- **Building trust in insurance needs to continue. As part of this effort, the IRA should reinvigorate the role of the local "insurance champions**". They should have a refreshed engagement particularly in terms of positive encouragement of efforts to build insurance trust and awareness.
- **Communication initiatives that the IRA has undertaken so far could be reviewed to identify those that were most effective, and then a second more focused round to build insurance awareness can commence.** The rollout can be supported by new "RegTech" concepts and tools and could include innovations such as interactive app-based tools that allow real time feedback and adjustment, engagement at times and places that matter, and consumer interaction and information tools that provide incentives to participate.

To encourage insurer engagement as well as enhance consumer protection:

- Review, with the sector and using real time regtech tools, selected customer communication materials with a view to enhancing sale and service related materials and transition to a more

overseeing a "challenge fund" and "innovation competitions" to encourage and engage sector participants bilaterally, disseminating and looking to action findings of the consumer research stream particularly regarding product and service delivery innovations. This groups should also handle processes for pilots and sandboxing.

risk-based approach[111]. This initiative would include engagement with insurers regarding their effective content, form, and delivery mechanisms of information[112].

Regionalization

The regionalization of the insurance sector in the EAC and beyond is a current reality that can be embraced and deepened. Considering the regional nature of the market and finding ways to make it more efficient will mean that the "competition imperatives" should be viewed more positively than treating each jurisdictional market in isolation.

The IRA can lead an initiative through supervisory colleges in particular[113]. The IRA may wish to dedicate a small team to coordinating and facilitating supervisory college work in this respect. It can enhance the functioning of colleges where it takes a lead by working with insurance groups and fellow supervisory authorities to develop common approaches to understanding financial strength of insurance groups and to support research and discussion on intragroup management of risks, reinsurance, and cross border transactions including currency and taxation issues. Better understanding will inform opportunities for more effective responses that may also be able to be generalized into broader policy or may simply remain as group specific responses.

The IRA can initiate this enhanced supervisory college approach with some additional technical support to help facilitate and provide high level technical training for the selected college membership.

The regional mapping work done as part of this project will also be usefully maintained at the EAC level through the supervisory college system.

Risk-based approaches

Continuing to develop a risk-based approach to supervision: Through proportionate and risk based regulation and supervision, the IRA continues to encourage innovation, professionalism, measured risk-taking, and flexibility. At the same time, leveraging RegTech of consumer protection noted above, industry and financial analysis-based interventions, managing RBC transitions, developing refined internal EWS systems, and enhancing non-financial dimensions will all help build overall professionalism

[111] Consistent with risk-based approaches, with the right tools and structure, insurers can take more responsibility for monitoring their communications and ensuring that they are managed to serve the objectives of delivering information to customers that they can access, absorb, understand and action.
[112] An initial focus of this stream of activity should cover both conventional and micro insurance type clients albeit that differences would be expected. Suggested options for specific or targeted review include mobile insurance clients and other micro clients in the tea project.
[113] Items to focus on for "quick wins" would include publishing and discussing a mapping of inter-relationships across the region, providing leadership for specific harmonization initiatives, assessing solvency for regional groups for supervisory college purposes, other functioning of supervisory colleges, treatment of internal transactions such as reinsurance and internal service contracts across borders within groups, barriers and opportunities when delivering insurance solutions to regional real economy players such as mapping taxes etc.

and leveraging natural pressures from new shareholders, distributors and clients. This initiative will also contribute a role for supervisory activities that normalize sector performance.

Competition should not be resolved through mandated tariffs or increased minimum capital levels to force mergers. Continued implementation of risk based capital and supervisory approaches will raise standards and engage senior managers, boards and shareholders more effectively than mandated “compliance based” interventions.

- The insurance sector would appear to benefit from continued consolidation whilst growing its role in regional retail markets and as a regional hub within the EAC, as well as increasing their efforts to expand outside Nairobi. Expansion will offset existing domestic market competition pressures. It is not recommended that the government press for consolidation at this stage through increased minimum capital requirements, instead challenging the industry and partnering with them to advance the development of markets outside Nairobi and to act as a regional hub in the EAC. Of course, if some consolidation presents then the government should not stand in the way of mergers or new entrants that would meet prudential norms.

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