INSURANCE REGULATORY AUTHORITY

2013 KENYA INSURANCE INDUSTRY OUTLOOK

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FOREWARD

The 2013 Kenya Insurance Outlook mainly assesses the expectations of the insurance industry for the year 2013 and highlights views on the performance of the industry in the year 2012. The outlook is expected to inform policy, strategic planning and decision making towards spurring industry growth.

DISCLAIMER

The Authority wishes to state that while best standards of data collection, analysis and reporting have been observed and given the fact that the content of this report is expected to inform the insurance industry stakeholders in Kenya and other stakeholders, responsibility of any consequences resulting from any action based on any content of the report cannot be appended to the IRA. Therefore, the Authority advises stakeholders to verify the research findings and recommendations before taking any action; otherwise the IRA will not accept any responsibility for any consequences suffered due to such actions as may be informed by the content of this report.

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EXECUTIVE SUMMARY

A survey on the outlook of the insurance industry for the year 2013 was carried out between December 2012 and January 2013. The survey targeted the Chief Executive Officers (CEOs)/Principal Officers of insurance companies and entailed probing for responses on a range of pertinent issues to the development of the insurance industry in Kenya. Over 35 of these officers were polled. This survey serves as a forward looking indicator of expected trends and developments for the 2013 and the findings are therefore significant in informing policy and decision making on regulatory, supervisory and developmental roles by the Insurance Regulatory Authority (IRA).

The survey sought to assess from principal officers the overall situation and outlook of the insurance industry in Kenya with specific focus on the 2012 performance (key achievements, drivers and challenges) and the expectations for the year 2013.

The survey established a general optimism among industry players on the insurance industry and by extension individual companies. This is demonstrated in the **91% approval rating** of the CEOs that the industry performed well during the year 2012.

The main **growth areas** for the industry were identified as overall growth in business volumes (31%), development of new niche products (14%) and investments in product marketing (7%).

The key **drivers** of the overall growth witnessed in the insurance industry over the period were marketing (21%), staff quality service strategy (14%), dedicated management (14%), development of new products (11%), intensive market research (7%), customer service (7%), claims management (7%) and automation of office and business processes (7%).

Over the same period however, the industry continued to face a number of **challenges** that had an influence on realization of further gains in growth. These challenges among others included premium rate undercutting (23%), claims settlement in terms of volume and costs of settlement (9%), delays in premium collection and non compliance with cash and carry system (9%), inappropriate staff skills in some areas (7%), fraud (7%) and quality of intermediary services and customer retention (7%).

The industry shows a variety of expectations for the year 2013. The **most risk exposed classes** of insurance business going forward in the year 2013 are identified as medical, motor private, motor commercial and burglary/theft. These classes' risk exposures are considered to range between high exposure and very high exposure and will .therefore require dedicated measures to mitigate their business growth impact.

Going forward in 2013, capitalization levels, insurance claims, commissions and management costs, inflation and interest rates are likely to moderately impact on business performance. Also likely to impact business, despite measures being put in place by Central Bank of Kenya, is the depreciation of the Kenyan currency against major currencies owing to developments in the first quarter of the year especially the general election. Finally, profitability is expected to increase though at small rates and the insurance rates are likely to decrease but at small rates as well.

The **top five national issues** that are likely to have **high impact** on the insurance business are financial stability, constitution expectations (like consumer protection, leadership and integrity and information disclosure), Traffic (Amendment) Act 2012, proposed merger of financial sector authorities, financial reporting and information disclosures.

The likely effect of the general election on risk exposure is of moderate worry followed by insurance claims and investment uncertainty. There is some level of uncertainty at the industry level as regards the direction that fraud and labor mobility will take as a consequence of the general election although this is overridden by the optimism of a fairly stable insurance industry.

Low consumer demand for insurance is considered a challenge **of very high concern**, in 2013 followed by political uncertainty, insecurity, terrorism and money laundering and insurance perception respectively. Industry competition and low consumer awareness of insurance are expected to continue posing considerable challenges too.

Most significant growth driving sectors to the insurance industry are financial intermediation, warehousing, building and construction, industry and manufacturing as well as Health (for medical insurance). The **least significant sectors** to insurance include hotels and restaurants, agriculture and forestry plus wholesale and retail business.

Priority counties considered for business opportunities are Mombasa, Nakuru, Kisumu, Kiambu and Meru respectively. The least significant counties are Samburu, Wajir, Mandera, Marsabit, Tana-River and West-Pokot.

In terms of **attractiveness** for opening up branches, priority counties in descending order include: Nakuru, Kakamega, Machakos, Kiambu, Nyeri, Kisii, Kisumu, Meru, Uasin Gishu (Eldoret), Lamu, Nairobi and Isiolo.

Going forward, a number of issues continue to be considered critical for the industry and therefore the industry needs to focus on them. These are:

1. Tackling uncompetitive practices like poor underwriting and premium undercutting;.
2. Dealing with negative industry perception;

3. Insurance fraud;
4. Increasing insurance education and awareness;
5. Adoption of technology enabled platforms in service delivery;
6. Brokers limited reporting and disclosure;
7. Misselling and agency force development;
8. Controlling management expenses;
9. Optimizing market size and investment channels.

In conclusion, there is a general confidence within the insurance industry of continued stability spurring industry growth with moderate risk exposures that may not have any major destabilizing impact on industry performance. As a way forward, there is need for continued focus on identified performance gaps while seeking to enhance insurance inclusion, penetration and overall profitability. The road ahead is an industry full of opportunity to be exploited while ensuring that the identified challenges and issues are addressed. This survey lays a foundation for further research on these key issues that influence insurance business to boost the industry shift towards full potential.

The following are recommended as priority areas to address the issues raised in the survey:

1. Develop insurance sector image management strategy;
2. Improve Insurance Fraud Investigation Unit (IFIU) visibility and insurance companies to set clear fraud detection strategies;
3. Set intermediaries development strategy and enhance insurance brokers' disclosure requirements;
4. Deepen insurance consumer awareness and public education measures;
5. Enhance innovativeness in product development and marketing;
6. Consolidate regulations, encourage compliance and enhance enforcement.

INTRODUCTION

1.1. BACKGROUND OF THE STUDY

The need for any industry to have an image of how the future business environment looks like is critical for policy and decision making. Therefore, the Insurance Regulatory Authority (IRA) identified the gap on a document that provides this picture and decided to be conducting a survey between December and January on the insurance industry outlook for each New Year to fill this gap. The outlook is expected to guide various stakeholders in strategic planning, forecasting and decision making.

1.2. OBJECTIVE OF THE 2013 SURVEY

The main purpose of this survey is to forecast on the insurance industry outlook for the year 2013 and document the experiences of the industry in the year 2012. In particular, the survey seeks to achieve these objectives:

1. Assess views on insurance industry performance during the year 2012;
2. Explore expectations of the insurance industry for the year 2013; and
3. Make recommendations based on findings in objectives 1&2.

1.3. SCOPE OF THE STUDY

The 2013 survey aimed at collecting data from all the Principal Officers/CEOs of the 46 registered insurance companies in Kenya as at 18th Dec, 2012. The response success rate was 71%.

The themes of the survey included; 2012 overall industry performance (rating, achievements, drivers & challenges), 2013 risk exposure expectations per class, 2013 prospects on determinants of the insurance industry performance, challenges to the implementation of individual company strategic plan, the impact on insurance operations by some expected national issues in the year 2013, levels of worry on impact of 2013 general election, sectors and counties of significance to insurance business in 2013 and beyond.

METHODOLOGY

The survey employed descriptive research. The target population was the 46 CEOs of the registered insurance companies as at 18th Dec, 2013. The survey collected primary data through a self administered questionnaire sent to the CEOs. Descriptive statistics analysis was done using SPSS and Microsoft Excel was used in the presentation of output.

ANALYSIS AND FINDINGS

4.1. DATA PROFILE

This report involves views of 34 CEOs of the Kenyan insurance companies. The central themes were drawn from the further clarifications or explanations which were highlighted by the CEOs.

4.2. ASSESSMENT OF PERFORMANCE IN 2012

4.2.1. OVERALL RATING OF THE 2012 PERFORMANCE

In the year 2012, 50% of CEOs believe that the insurance industry realized an average performance pegged on their expectations, while 41% said the industry performance was above average leading to a 91% approval that the industry performed well. On the other hand, 53% and 38% of CEOs believe that the general economy of Kenya was average and above average respectively leading to 91 approval that the general economy performed well too. At respective company levels 59% of the CEOs are of the view that the individual companies' performance was above average while 22% said the companies performed at an average level making an 81% approval that the individual companies performed well against the CEOs expectations. This information is shown in figure 1 and indicates that there is room for the industry to scale up to full capacity.

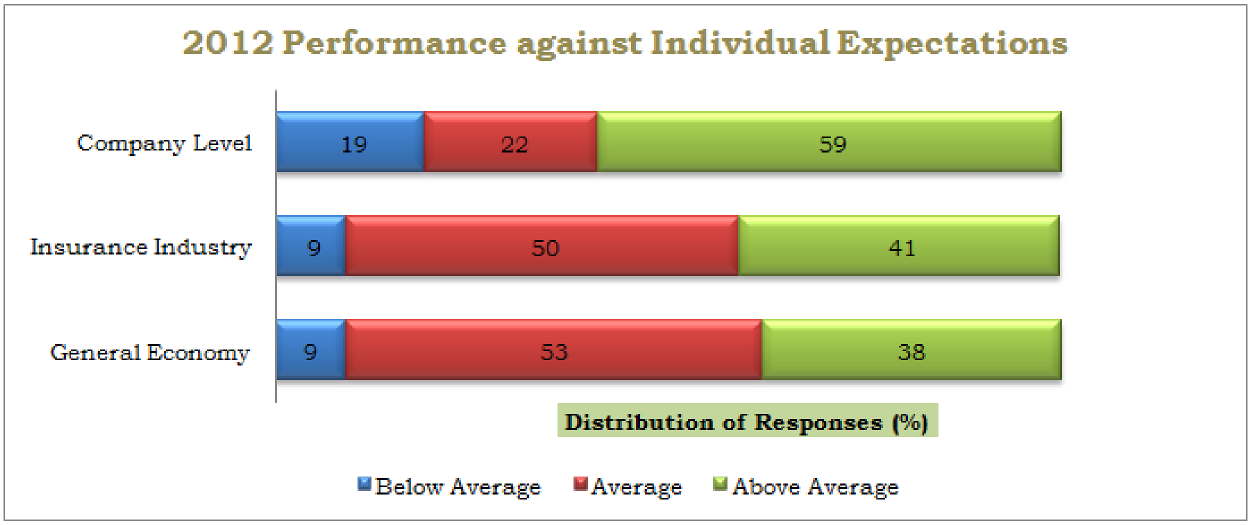

Figure 1: 2012 Performance of the Insurance Industry and the General Economy

4.2.2. ACHIEVEMENTS OF INSURANCE INDUSTRY IN 2012

The main **achievements** in the insurance industry reported by the CEOs for the year 2012 include business growth (31%), product development (14%), claims management (10%), marketing (7%), and good management (7%) among others as shown in figure 2 on page 9.

Business growth manifested in increased premium income, investment income, and business network expansion as well as market share. In some classes of micro insurance business, growth was uniquely cherished.

Product development involved new products launch while traditional products were said to have performed well too. These resulted in enhanced insurance product mix.

Claims management was explained through improved claims settlement, claims reduction and minimization of claims management costs. Closely related to claims management was fraud detection and minimization strategies which were reported but at 2%.

Marketing achievements were noted in meeting new business targets and penetration into previously untapped markets. Intermediary relations and commissioning of alternative distribution channels was reported to have improved and boosted marketing in the year 2012, for example where companies partnered with banking insurance agencies.

Good management was derived from functional boards of directors, strategic planning, strengthened internal controls, adoption of principles of good management and following corporate governance guidelines among other attributes.

Staffing (at 6%) though part of management was uniquely explained in terms of recruitment of new staff, encouragement of staff innovativeness and professionalism, staff motivation, increased staff morale and interaction. This resulted in staff quality service assurance.

Business capacity achievement (at 5%) was explained by increasing capitalization as well as improved shareholding structure and mergers.

The industry also reports that in the year 2012, there was improvement in service delivery, level of automation and branding though with 5%, 4% and 4% approvals respectively. Automation involved adoption of ICT and mobile phone technology systems in insurance business and office operations. Branding was explained by initiatives in rebranding and increasing visibility of the company and its services.

In addition, the establishment of specialized departments like actuarial, compliance, and internal audit, though at only 2%, also featured as a key success factor.

Finally, fraud detection (2%) and reduction in loss ratio (1%) were also identified as achievements.

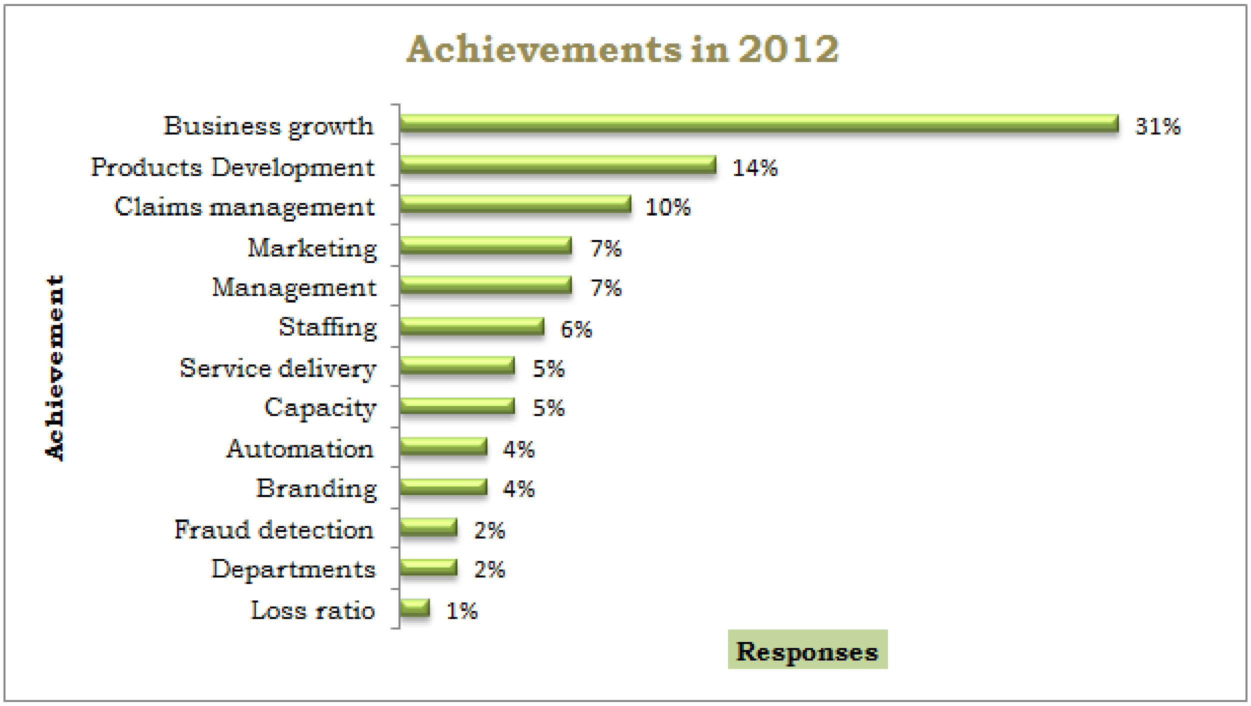

Figure 2: Achievements in 2012

4.2.3. DRIVERS OF INSURANCE INDUSTRY IN 2012

The key **drivers** of insurance industry in 2012 as shown in figure 3 were: Marketing (21%), staffing (14%), good management (14%), product development (11%), research and development (7%), customer service (7%), claims management (7%) and automation (7%). Other drivers included: Prudent underwriting (2%), shareholding (2%), creation of special departments (1%), NSE performance (1%), fraud detection (1%), credit control (1%) and prudent asset mix (1%).

Marketing strength comprised of reaching new market segments, expanded branch network, using alternative distribution channels and improved intermediary network relationship i.e. sales agents and brokers. Empowerment of intermediaries like brokers through trainings was also reported. Strategic partnerships with The National Hospital Insurance Fund (NHIF) and banks for banc-assurance as agents improved marketing.

Staffing as a driver involved staff retention and setting of a staff quality assurance and development strategy. It was also was explained by increased staff motivation, team work, trainings/seminars and encouragement of integrity and professionalism.

Good management though earlier seen as an achievement also appeared as a driver and was derived from the internal controls of office and business operations.

Product development, on its part, involved development of new innovative and tailor made products, and establishment of new business ventures like products for micro insurance.

Research and development involved market potentials analysis, strategic planning, review of company performance, gaps analysis and continued monitoring and evaluation.

Claims management was explained by claims settlement strategies like efficient processes, procedures and promptness.

Automation was through ICT software system installation and usage which was noted as key in providing capacity to innovate.

Improved customer service was facilitated through easier access to company services and strategy for increasing customer retention ratio. Customer service driven by organic renewal growth strategy, customer needs focus and increased customer personal contact.

Other drivers included: Prudent underwriting by following regulatory guidelines, enhanced shareholders role, increased monitoring and evaluation of company performance at The Nairobi Securities Exchange (NSE), fraud detection strategy, credit control and improved asset mix as shown in figure 3 below.

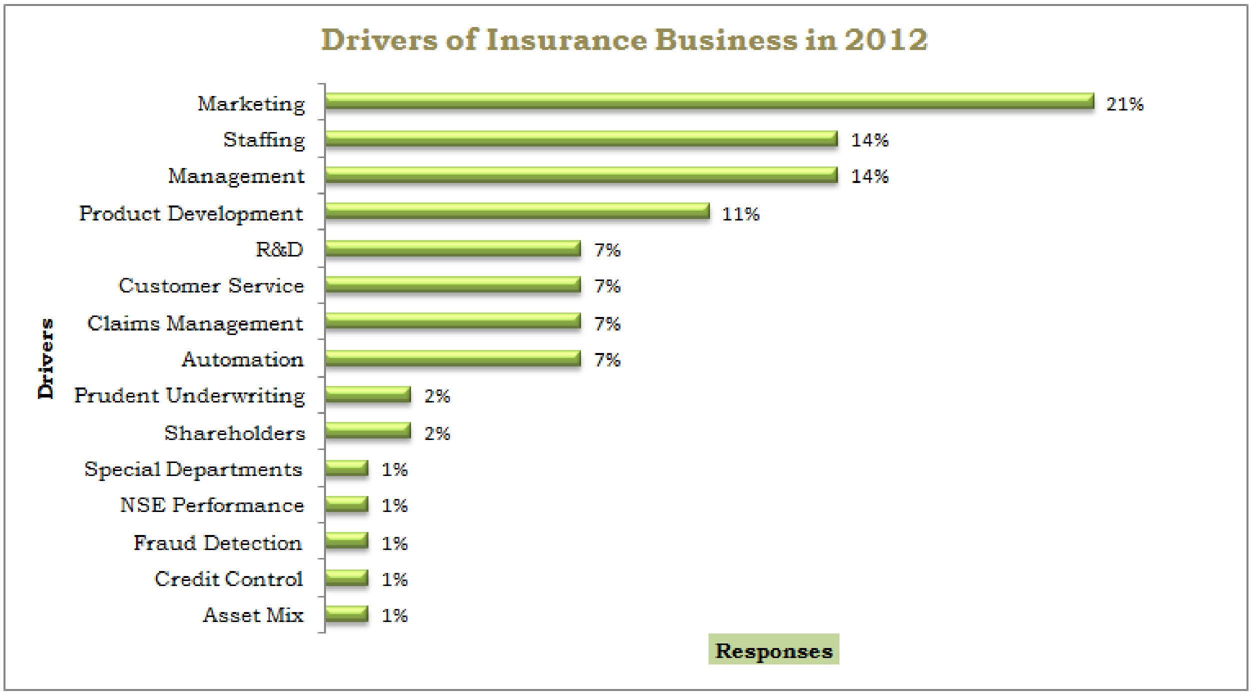

Figure 3: Drivers of Insurance Business in 2012

4.2.4. CHALLENGES INSURANCE INDUSTRY FACED IN 2012

However, as shown in figure 4, the industry faced the following **challenges** in 2012 which slowed down its performance: Price undercutting (23%), claims settlement (9%), premium collection (9%), staffing (7%), fraud (7%) and inadequate intermediary services (7%).

Other challenges included: implementation of structural changes, low retention ratio, regulations, low penetration, high inflation, non compliance with the cash and carry system, low capacity, and limited visibility each with 2% frequency. Low purchasing power, politics, licensing, investment income, compliance, expenditure, economic growth, credit control and cost of business each had 1% frequency as challenges.

Price undercutting was explained in terms of stiff competition leading to predatory pricing. This can threaten the stability of the industry if the prices go below the optimum level.

Claims settlement was difficult in terms of volumes, claimant's' pressure and fraud which led to increased loss ratio.

Staffing challenges included low morale in some staff, difficult in talent retention thus high turnovers of staff. It also emerged that staff poaching especially to other sectors affected the industry in 2012.

Inadequacies in distribution channels involved low sales-agents retention, poor agents' mindset, insufficient dedicated agency force and unhealthy brokers-agents relationship.

Low market penetration was explained by low uptake of new business, low purchasing power, low insurance awareness and low premium collection especially delays in remittance by employers.

Lastly, other challenges were debt management manifested in difficult in credit control, ICT project costs and delays were high, low business retention due to policy lapses, compliance costs for new regulations and guidelines, low cash and carry enforcement (non compliance), economic environment e.g. inflation and high interest rates, late renewal of license and Internal resource allocation.

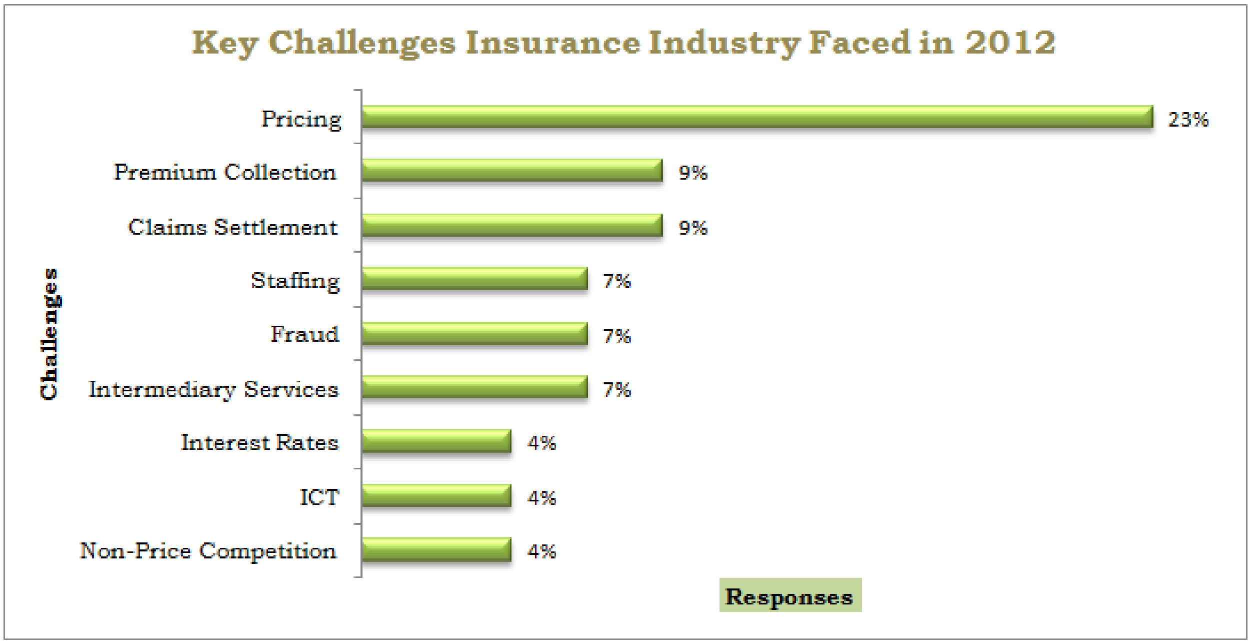

Figure 4: Key Challenges Faced in 2012

4.3. EXPECTATIONS OF THE INSURANCE INDUSTRY IN 2013

4.3.1. INDUSTRY RISK EXPOSURE IN 2013

The top classes in risk exposure in 2013 include medical, motor private, motor commercial and Passenger Service Vehicles (PSV), and burglary/theft insurance classes which range between moderate and major exposure as shown in figures 6 and 7. The classes with low risk exposure include: Fire domestic, ordinary life, engineering, superannuation and aviation whose exposure lies between minor and moderate. Lying in the moderate exposure are personal accident, fire industrial, liability, marine and miscellaneous classes. The overall risk exposure in 2013 across the classes was rated between major and very high according to 75% of the principal officers as shown in figure 5.

The industry needs to put measures in place to mitigate on the likely high loss ratios in the most risky classes and reduce the predicted risk exposure. This may involve more reinsurance, high excesses and engaging in consumer education and awareness on risk prevention measures which will lower both the probability of the risks occurring and the severity of the loss incurred.

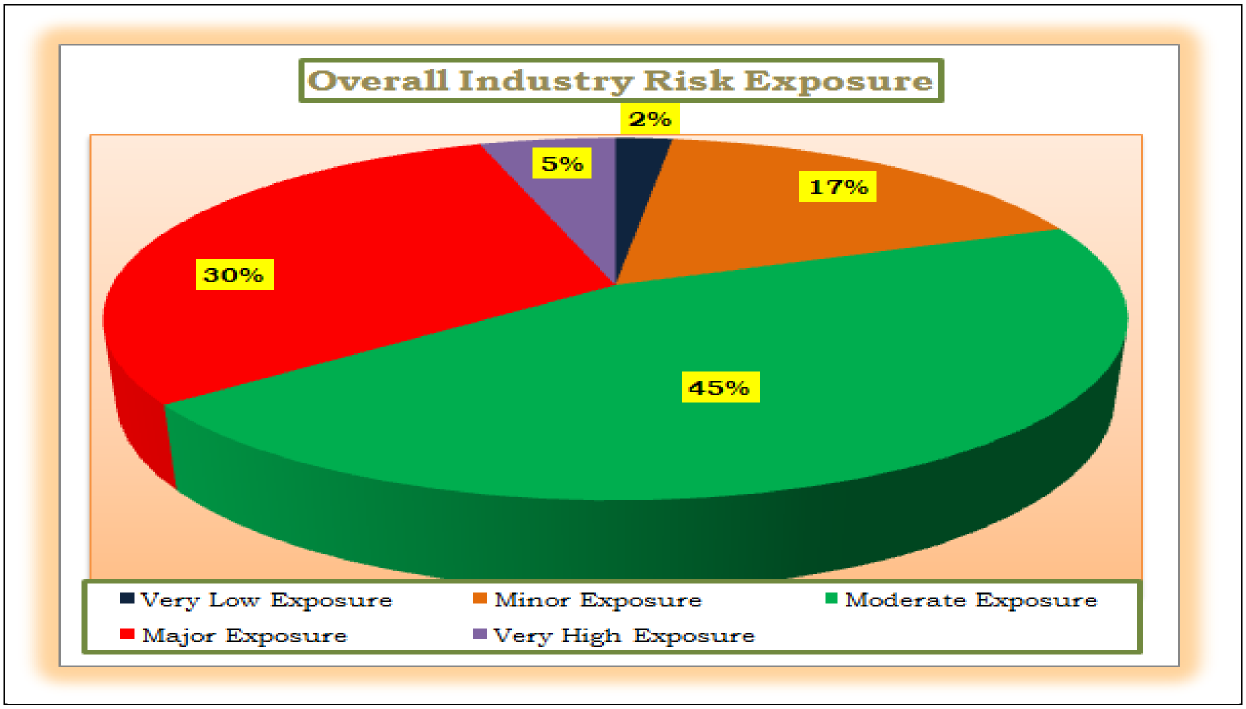

Figure 5: Combined Industry Risk Exposure Predictions

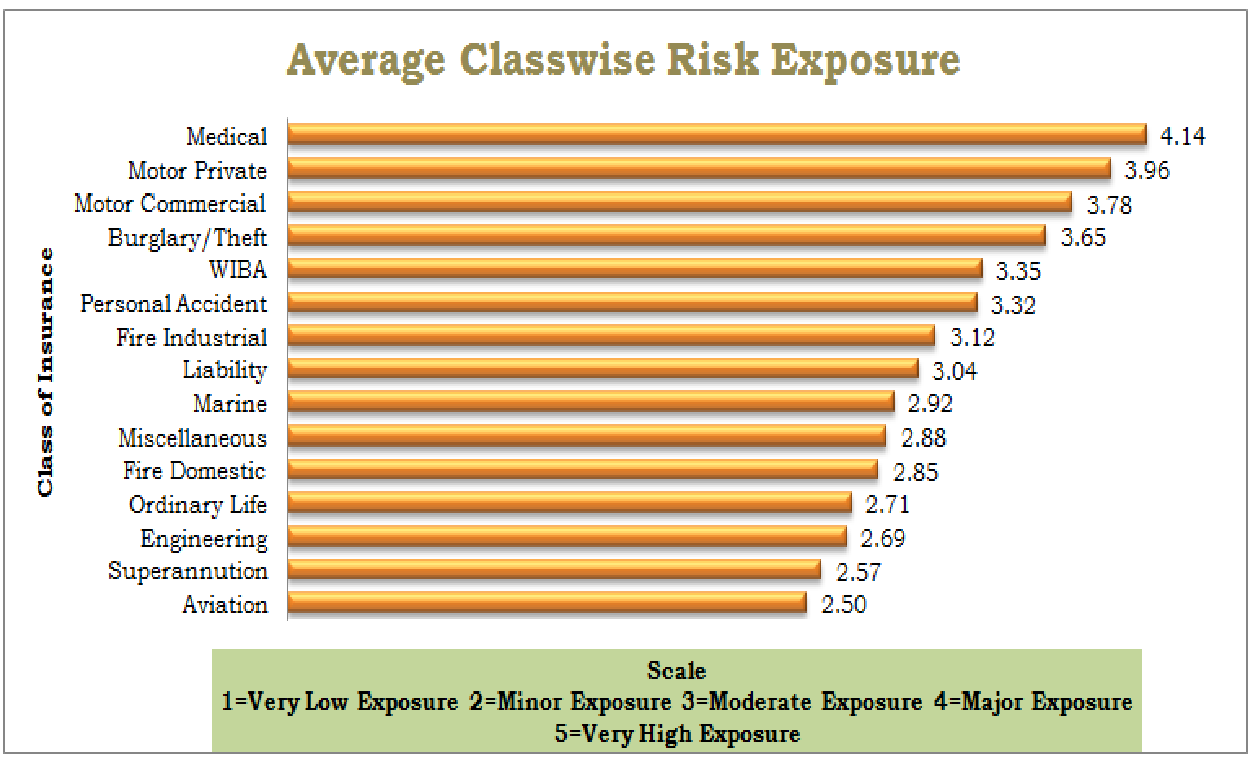

Figure 6: Classwise Assessment of Risk Exposure Predictions - Average

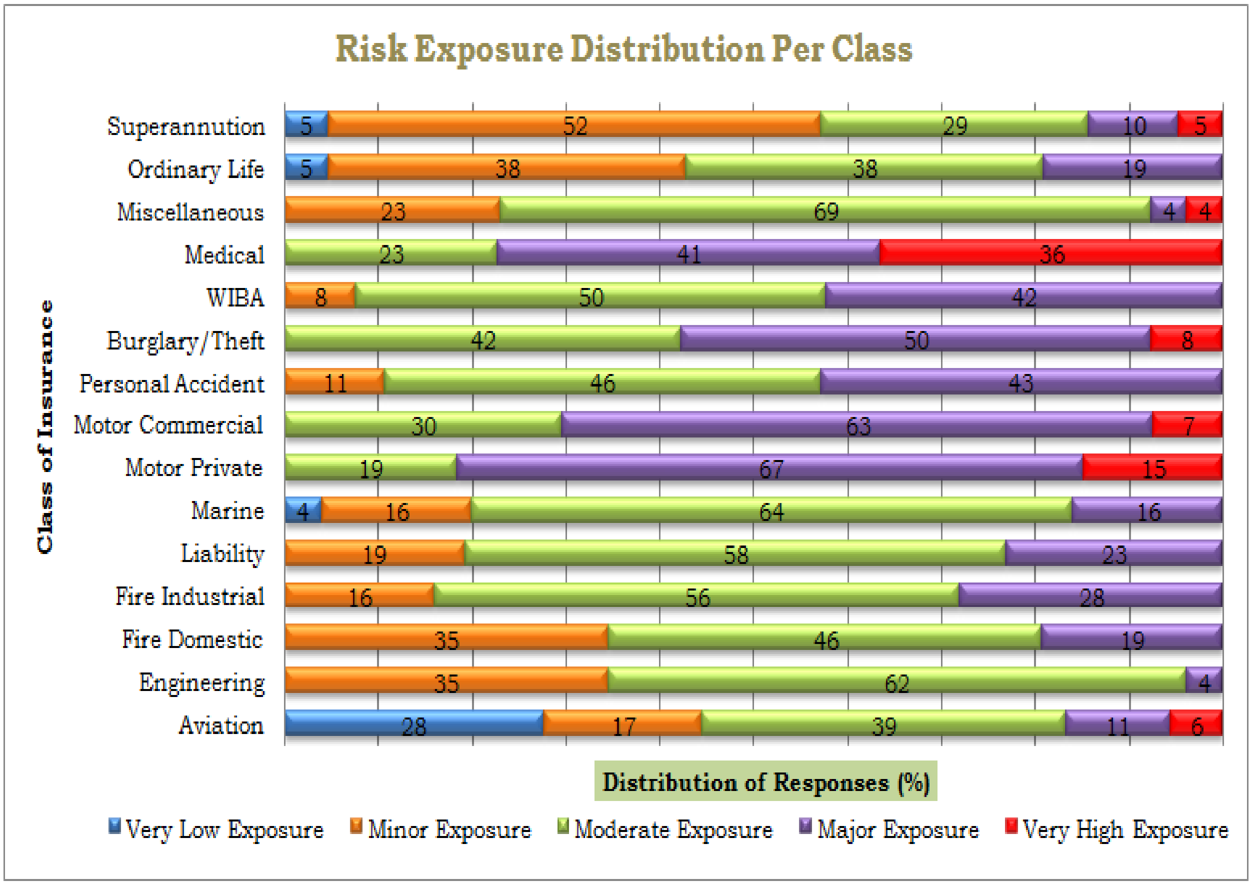

Figure 7: Classwise Risk Exposure Predictions Distribution

4.3.2. INDUSTRY PERFORMANCE DETERMINANTS IN 2013

In the year 2013, as reflected in figure 8 and 9, the insurance industry is expecting dividends to shareholders to increase at a moderate rate while insurance claims, commissions, management costs, inflation and interest rates are likely to increase at small rates. Capitalization, profitability and investment income are also expected to increase at a small rate. The industry expects the Kenya Shilling to depreciate at a small rate and the overall rate of insurance premiums to decrease at a small rate too.

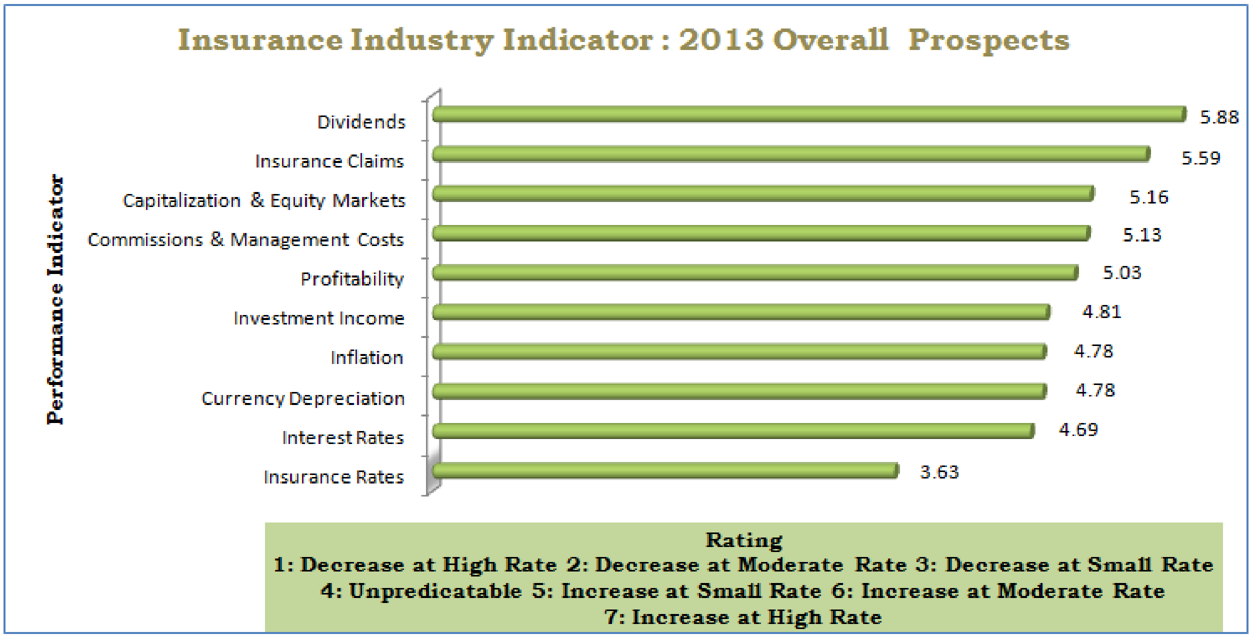

Figure 8: Insurance Industry Indicators 2013 Prospects – Average

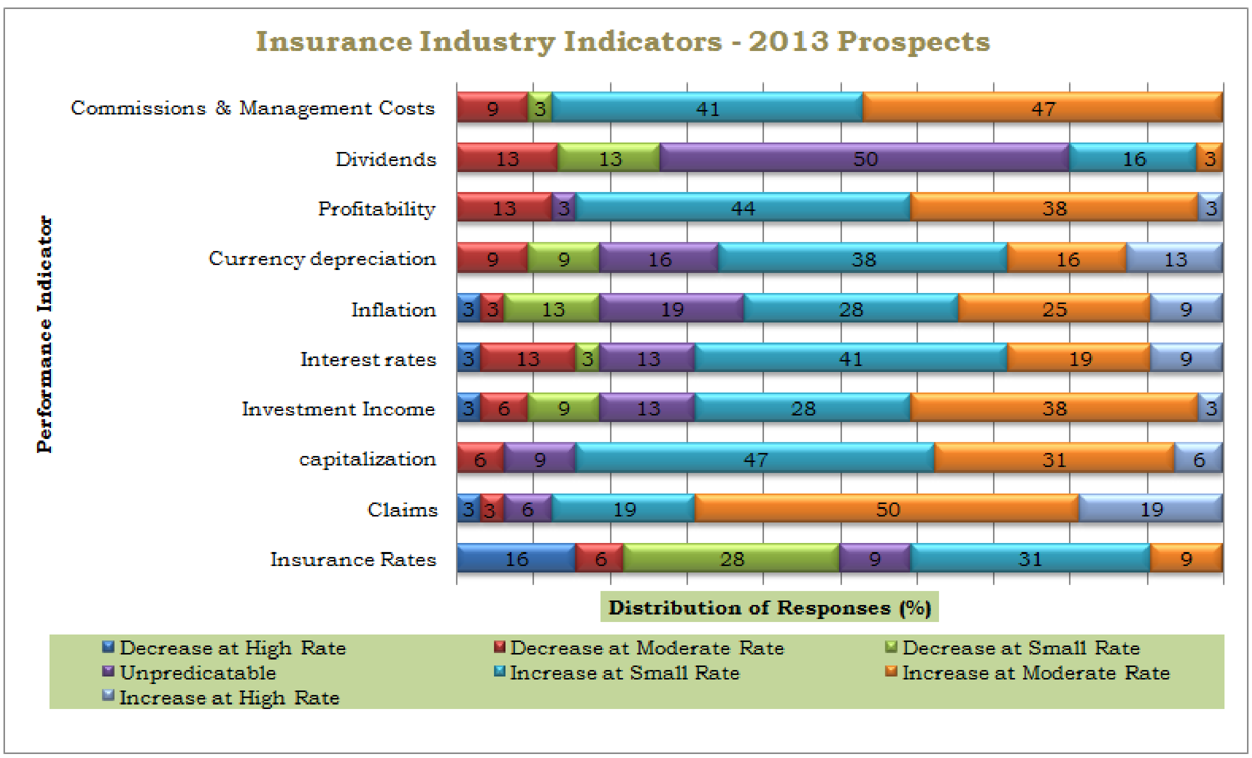

Figure 9: Insurance Industry Indicators 2013 Prospects – Distribution

4.3.3. INDUSTRY CHALLENGES IN 2013

Consumer demand seems to be the highest challenge the insurance industry is likely to face in the year 2013 followed by political uncertainty, insecurity and money laundering and terrorism and insurance perception in the top five (5) as shown in figure 10. Industry competition and consumer awareness traded as challenges of major concern while cost of compliance, ICT, skills and competencies and cultural barriers are seen as minor and moderate challenges as shown in figure 11.

Consumer demand was to be interpreted along its effect on insurance penetration and inclusion. Penetration being understood as the ratio of gross direct premium to the Gross Domestic Product (GDP) of the economy and insurance inclusion understood as increasing insurance absorption rate, and the number of policy holders and beneficiaries of insurance. Consumer awareness is mainly built on the consumer understanding of insurance and insurance products.

The probable solutions to consumer demand include innovations in production and marketing as well as enhanced consumer education and awareness campaigns. Innovative products would take different features but key among them is customized products and a rich product mix. Consumer education and awareness creation will need collective efforts by all stakeholders and a clear insurance education strategy and curriculum.

Insurance perception calls for stakeholders to observe professionalism in the way they conduct their business. The industry code of conduct may need to be reviewed and the umbrella bodies steer- heading the self regulation mechanism to be more assertive. The industry has a collective responsibility in market conduct. Strict regulations and intensive supervision as well as surveillance will come in the absence of self regulation. Insurance industry holds public money in trust and the government has a responsibility to see that trust prevails and that measures are put in place by companies not to compromise their promise of compensation and quality service to the customers.

Competition is good in business when it is healthy. Predatory pricing hurts many insurance companies and may threaten their financial stability. An Insurance company going-under impacts negatively on insurance perception and reduces consumers' confidence in the sector. This is because the public will always ask the question, which firm is likely to go under next?

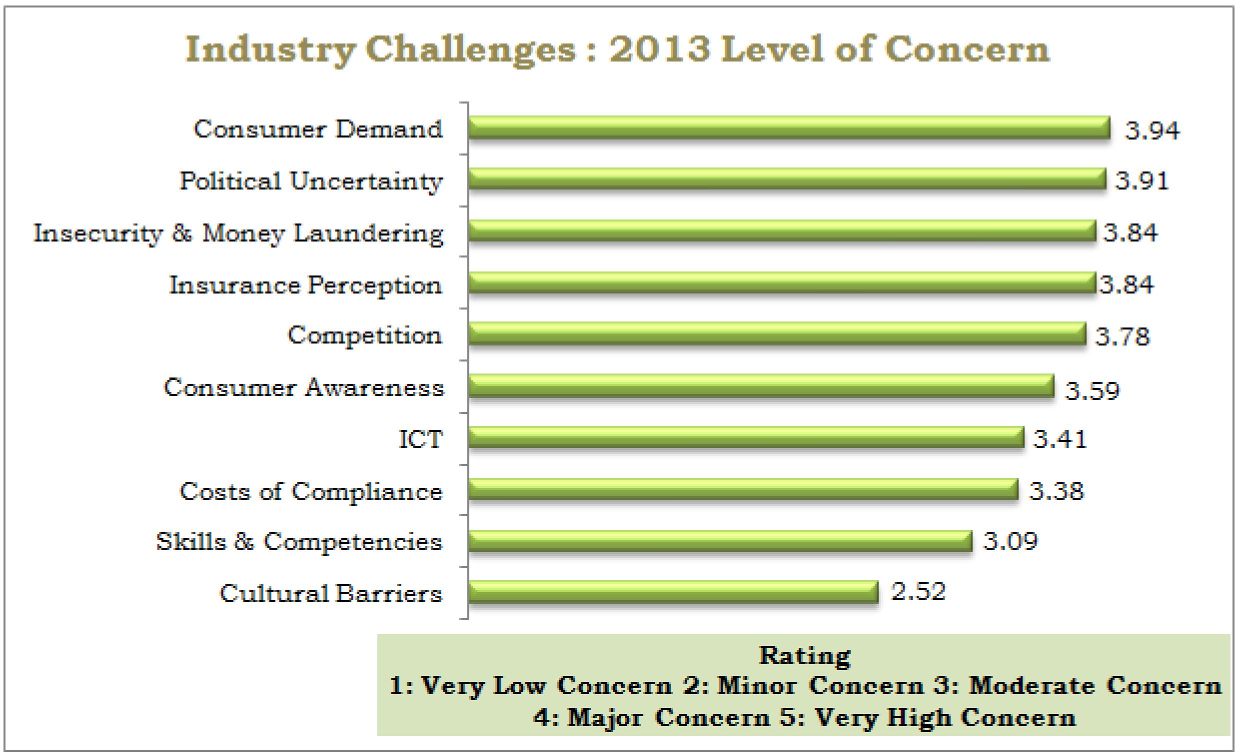

Figure 10: Industry Challenges 2013 Concern Levels – Average

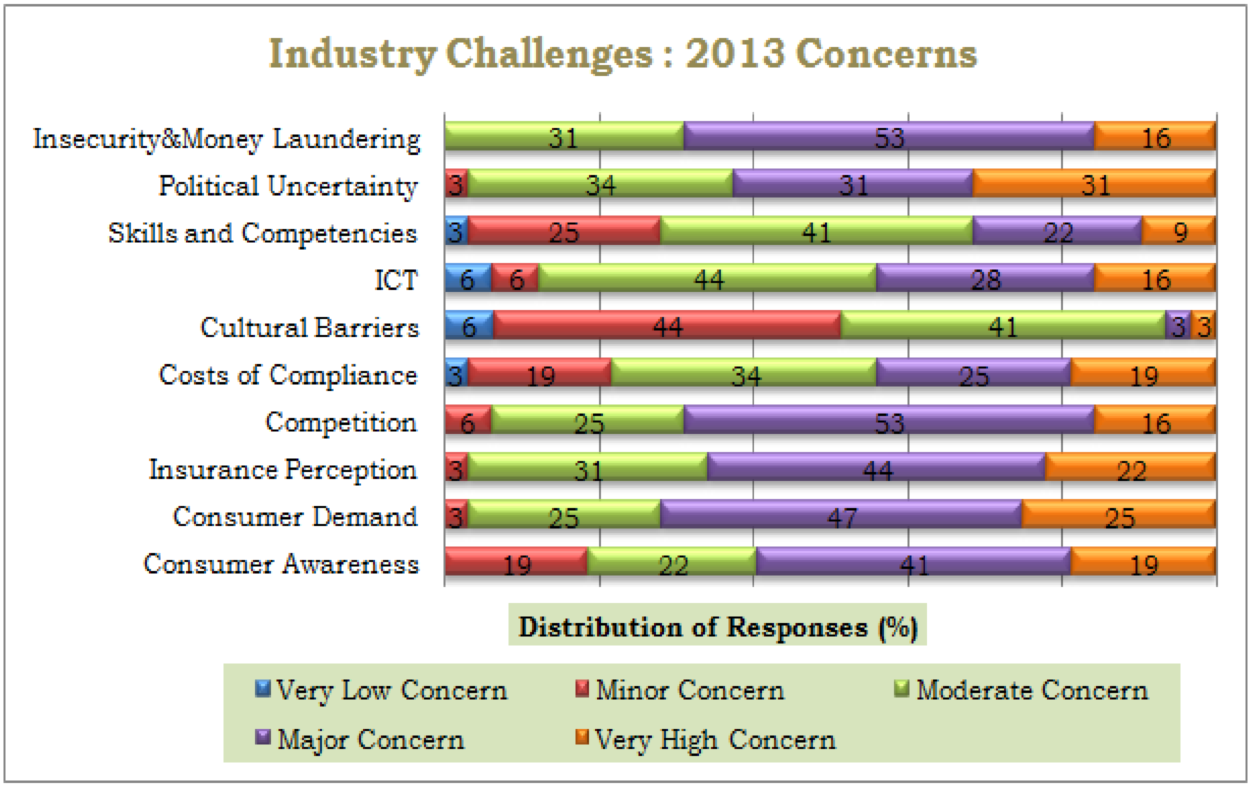

Figure 11: Industry Challenges 2013 Concern Levels – Distribution

4.3.4. NATIONAL ISSUES LIKELY TO IMPACT INSURANCE BUSINESS IN 2013

Financial stability emerges as a national issue that will have highest impact in the insurance industry followed by the Constitution expectations, Traffic (Amendment) Act 2012, Financial Sector Authorities (FSAs) merger and Financial Reporting and Information Disclosure (FR&ID) respectively in the top 5 issues. The restructuring of the National Hospital Insurance Fund (NHIF), review of National Social Security Fund (NSSF) fees, global economic environment performance, financial inclusion concerns and taxation follow as likely to impact on insurance business though with moderate impact respectively as shown in figure 12. In addition some of the elements in the Constitution which were highlighted to guide the CEOs interpretation of the impact of Constitution included consumer protection, consumer education, and the human rights chapter in general.

Figure 13 shows that the impact of these issues on the operations of the insurance business would range between moderate and high impact on average. Specifically the percentages of CEOs who view the issues as of either moderate to high impact are as follows: Financial stability (88%), constitutional expectations (90%), Traffic (amendment) Act 2012 (90%), financial sector authorities merger (87%), financial reporting and information disclosure (91%), restructuring of NHIF (81%), review NSSF fees (69%), global economic environment performance (88%), financial inclusion concerns (85%) and taxation (79%).

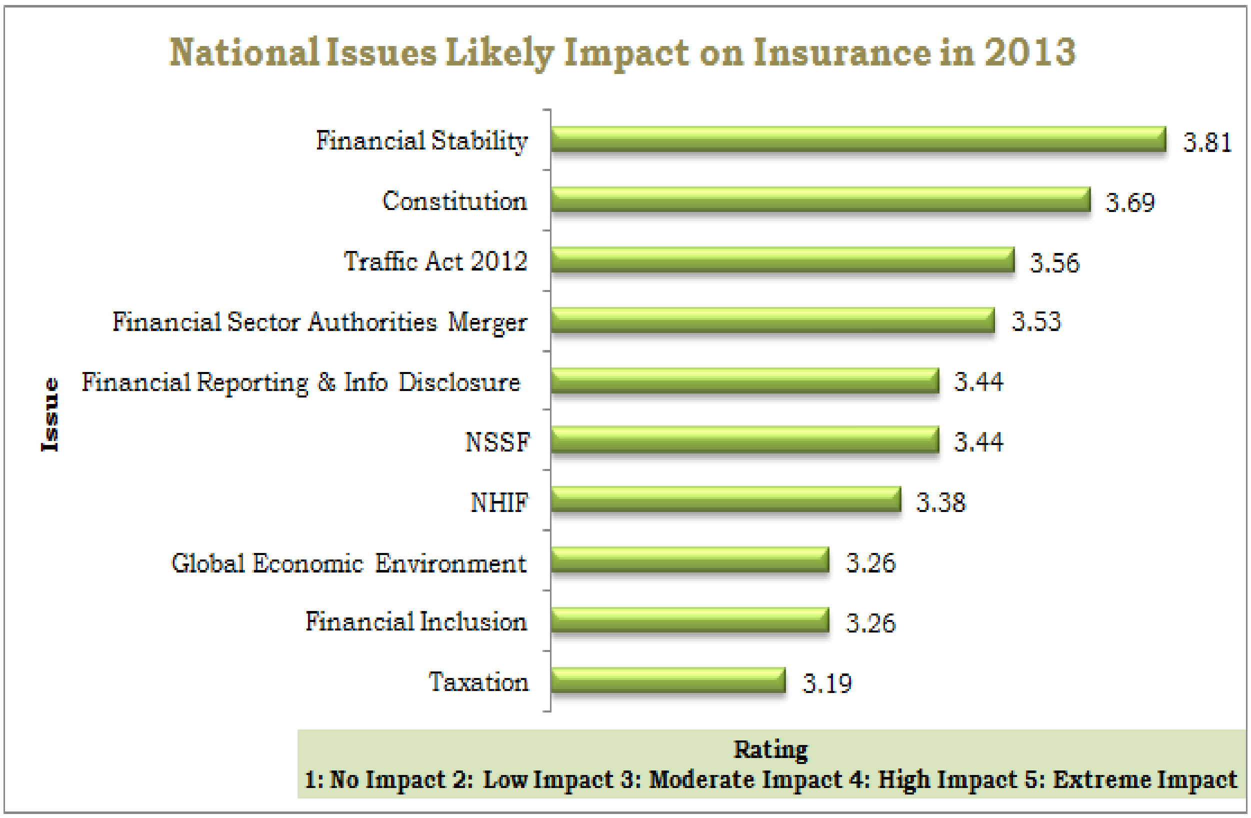

Figure 12: National Discussions 2013 Impact Expectations – Average

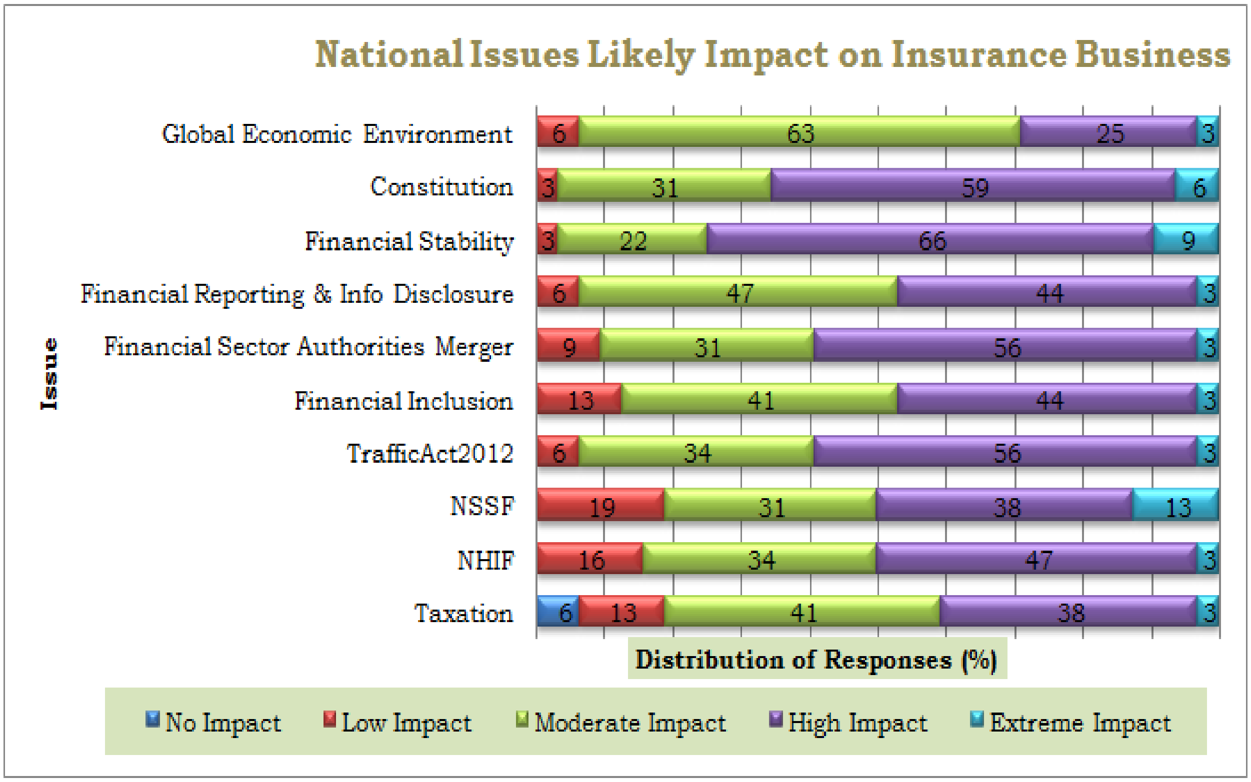

Figure 13: National Discussions 2013 Impact Expectations – Distribution

4.3.5. IS GENERAL ELECTION OUTCOME A WORRY IN 2013?

Over 68% of the CEOs as shown in figure 14 indicated signs of worry over the outcome of the 4th March, 2013 general elections in Kenya. In figure 15 and 16, the likely effect of the general election on risk exposure seemed to be the greatest worry followed by increase in insurance claims which is a consequence of level of risk exposure. The industry players were unsure of the direction that fraud and labor mobility would take due to the general election.

As shown in figure 16, the industry was worried about the unforeseen effects of 2013 general elections outcome on risk exposure (87%), insurance claims (85%), investment uncertainty and capital flight (85%) and fraud (50%) except for labor mobility (31%) due to displacement of people due to election violence given the events of 2007 Kenya General election post election violence. Definite worry responses contributed to 34%, 41%, 22% for risk exposure, insurance claims and investment uncertainty & capital flight respectively. See figure 16.

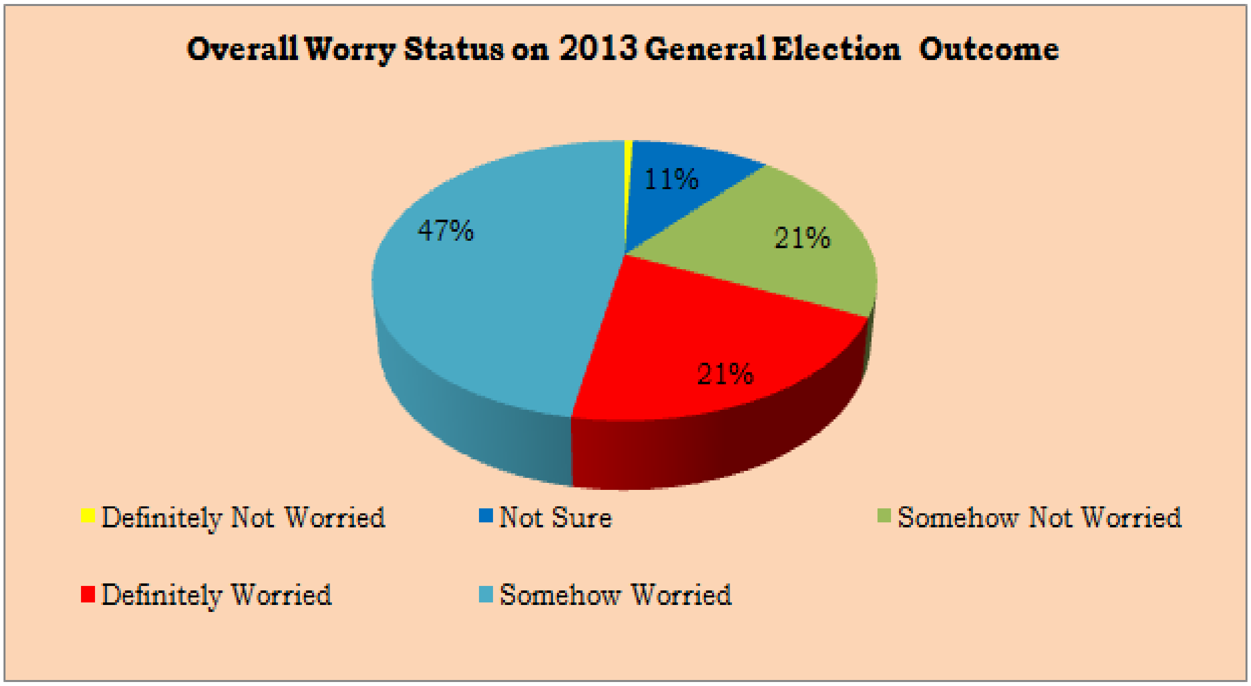

Figure 14: 2013 General Election Insurance Industry Worries – Overall

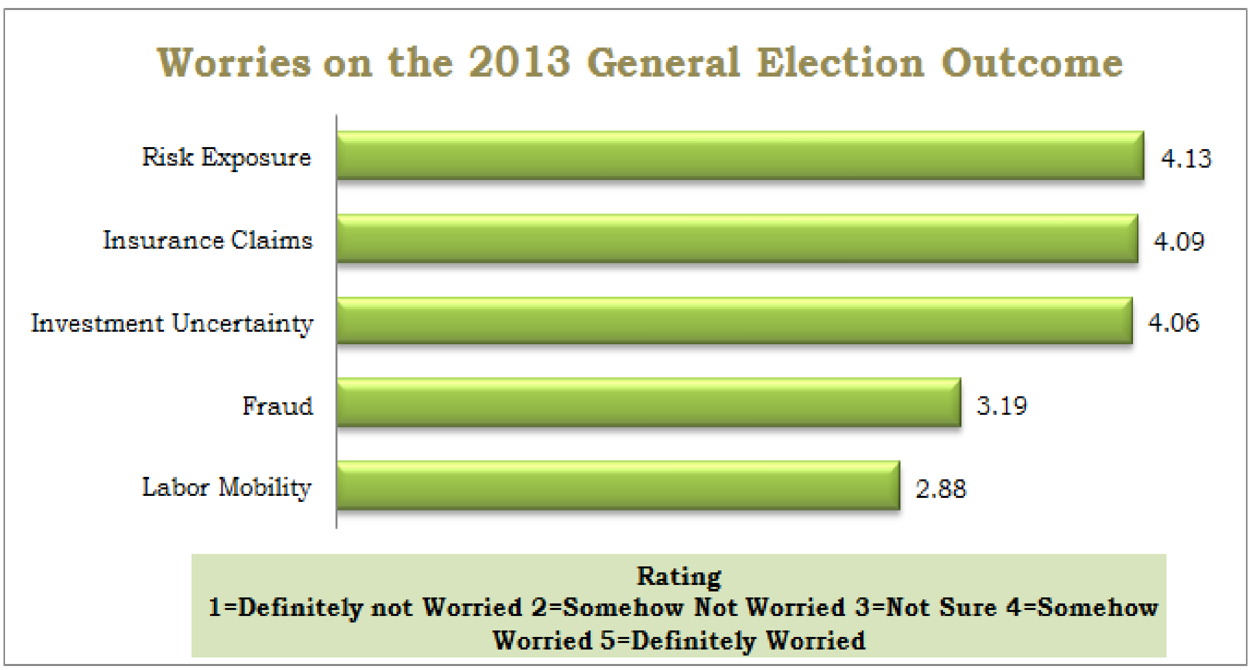

Figure 15: 2013 General Election Insurance Industry Worries – Average

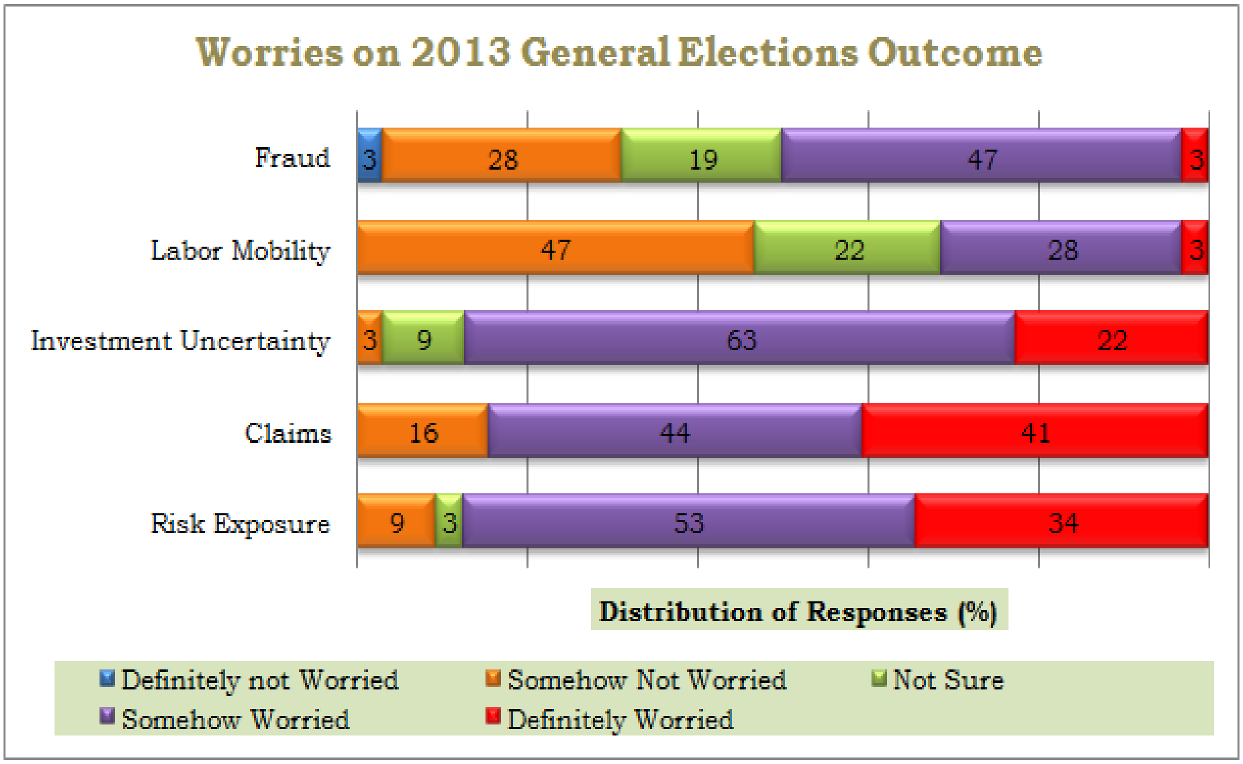

Figure 16: 2013 General Election Insurance Industry Worries – Distribution

4.3.6. SIGNIFICANCE OF SECTORS TO INSURANCE BUSINESS IN 2013-2017

The role of the financial intermediation sector in insurance business performance is rated high followed by warehousing, building and construction, industry and manufacturing and medical sectors in the top 5 significant sectors respectively as demonstrated in figure 17. These sectors are expected to continue playing a critical role in the insurance business in the next five years (2013-2017). In figures 17 and 18, minerals exploration and extraction, transport, security, education and communication sectors' significance falls between moderate and near high significance to the insurance industry. The sectors that are likely to play a small role are wholesale and retail sector, agriculture and forestry as well as hotels and restaurants.

The sectors with low significance require innovation and clear strategy as well as support for them to be attractive to insurance business. As the way forward, the industry may consider developing specific products for each and every sector instead of the generalized products. This will serve the sectors better and improve the uptake of insurance by those sectors that are in bottom. Indeed, it is understood that small and medium enterprises largely deal in wholesale and retail businesses which may not be attractive to the insurance business perhaps because they can only afford low insurance rates. Agriculture remains largely a subsistence sector than it is for commercial purposes and this may be the reason for its low attraction to insurance business. However, some counties may be well endowed with agricultural potential and insurance companies may consider studying the insurance potential in those places. Some companies of course have started underwriting livestock and crop insurance which is a positive move. Hotels and restaurants business is picking in Kenya and insurance demand may need to be induced. The question, however remains how transport looses to the first six sectors?

The responses that perceive the role of various sectors to be high and very high to insurance business aggregate to the following percentages as shown in figure 18: Financial intermediation (97%), wholesale and retail trade (41%), hotel restaurant (9%), transport (76%), building & construction (88%), agriculture & forestry (34%), mineral exploration & extraction (62%), warehousing (28%), communication (57%), education (50%), medical (75%) and security (66%).

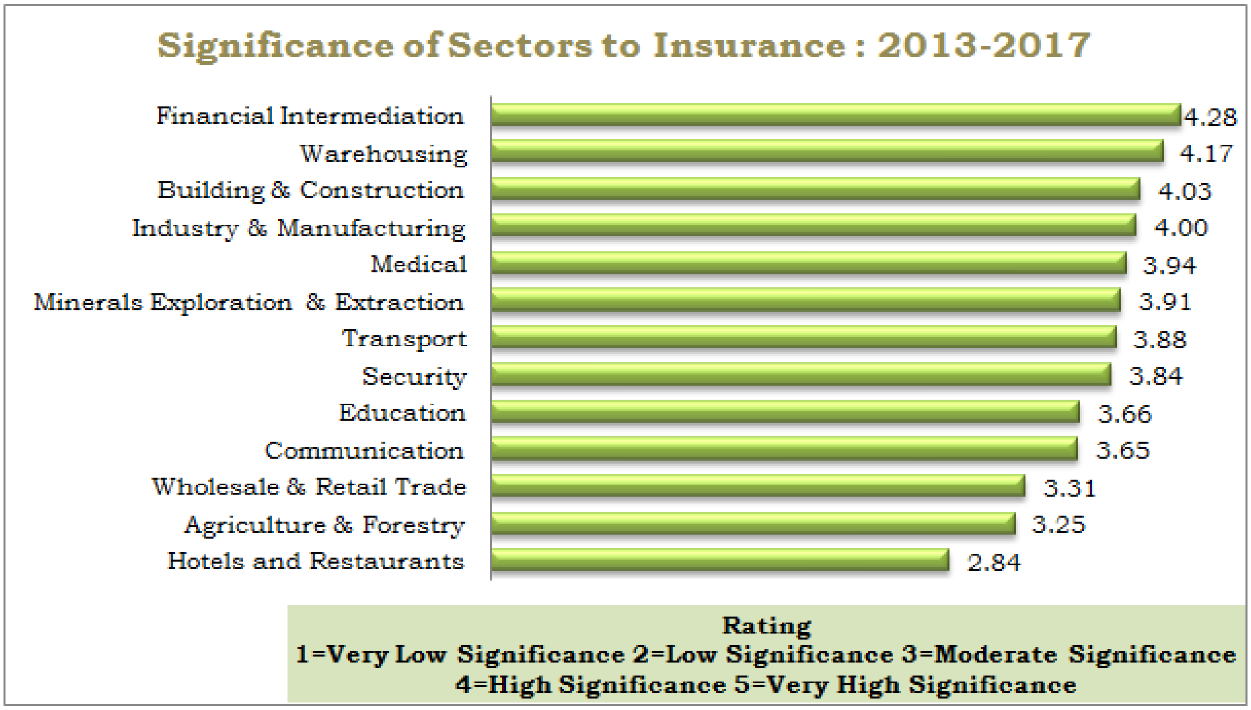

Figure 17: Significance of Various Sectors to Insurance – Average

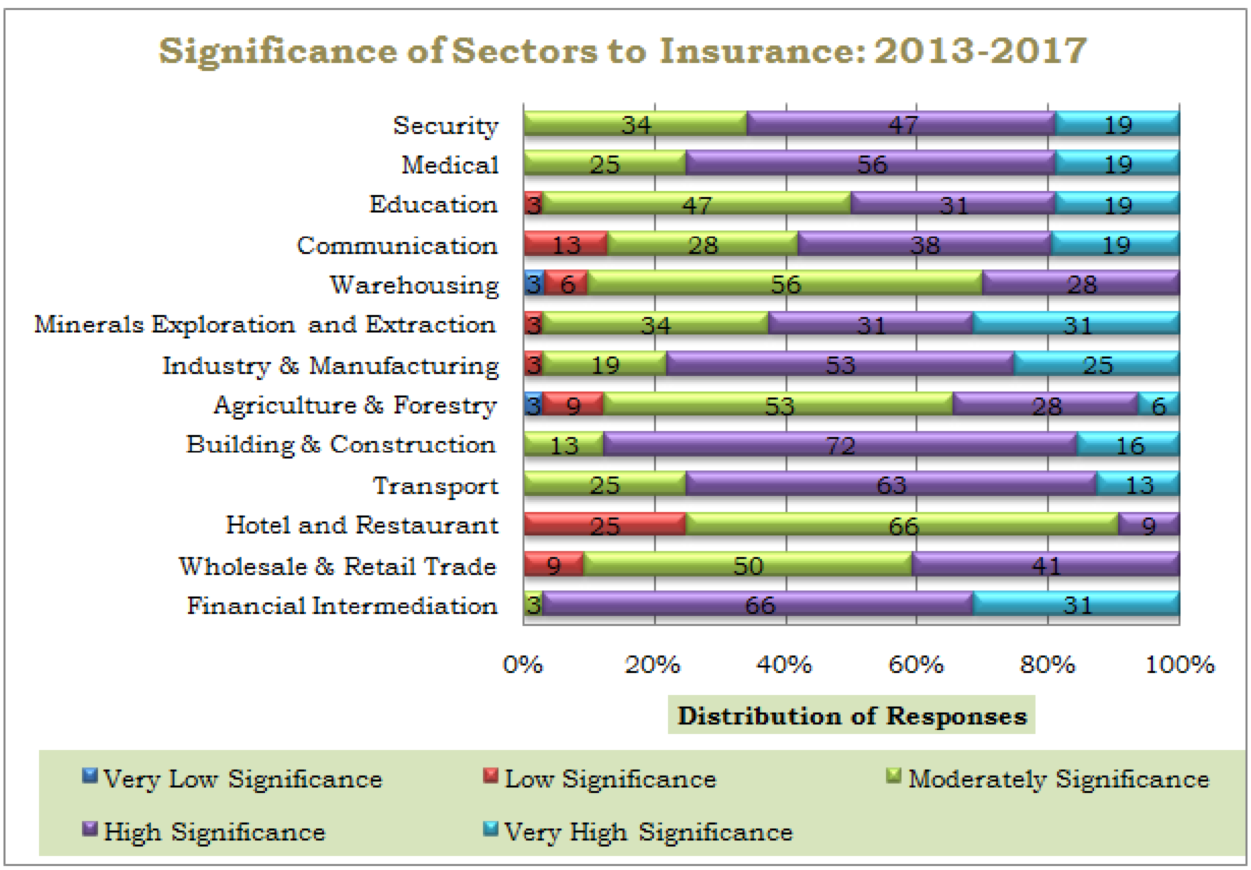

Figure 18: Significance of Various Sectors to Insurance – Distribution

4.3.7. SIGNIFICANCE OF THE COUNTIES TO INSURANCE BUSINESS IN 2013

a. **SIGNIFICANCE OF THE COUNTIES TO INSURANCE INDUSTRY**

The top 10 significant counties to insurance business in 2013 are Mombasa, Nakuru, Kisumu, Kiambu, Meru, Nairobi City, Embu, Machakos, Kericho, Narok and Murang'a respectively. Samburu emerges as the least significant county as well as Wajir, Mandera, Marsabit, Tana-River, West-Pokot, Garissa, Kakamega and Elgeyo-Marakwet. See figure 19.

In addition, figure 20 provides the distribution of the CEOs perceptions on how the 47 counties are going to contribute to the growth of their business and the industry in general in 2013. The counties seem to have different potentials to attract insurance business. There is need for the industry players to link up with Kenya Investment Authority (KenInvest), a statutory body aiming at promoting investments in Kenya, whose website is http://www.investmentkenya.com/kenya-by-county. This will inform the players the potentials in respective counties so that they can develop tailored products to suit the population and enterprises in those counties.

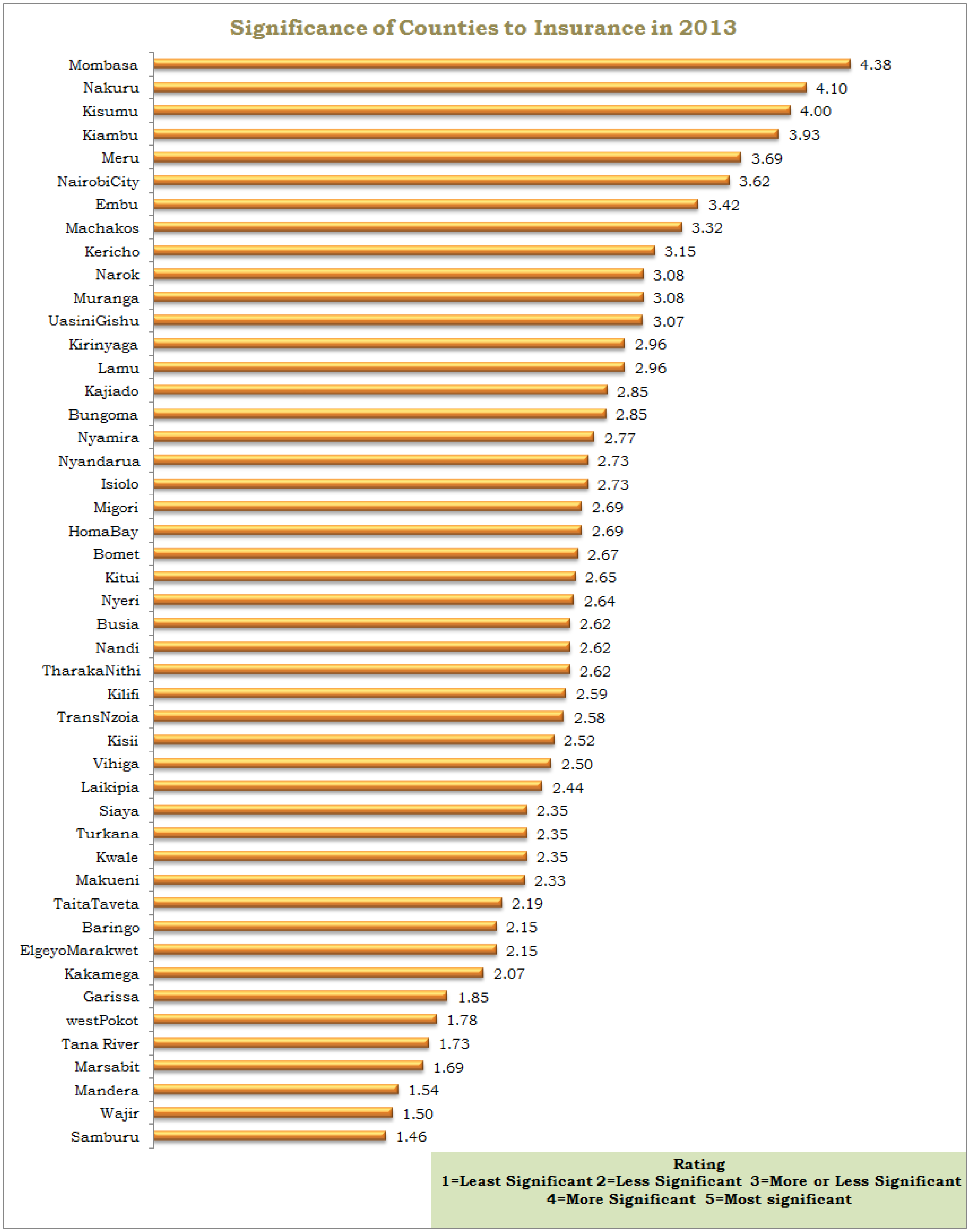

Figure 19: Significance of Counties to Insurance in 2013 - Average

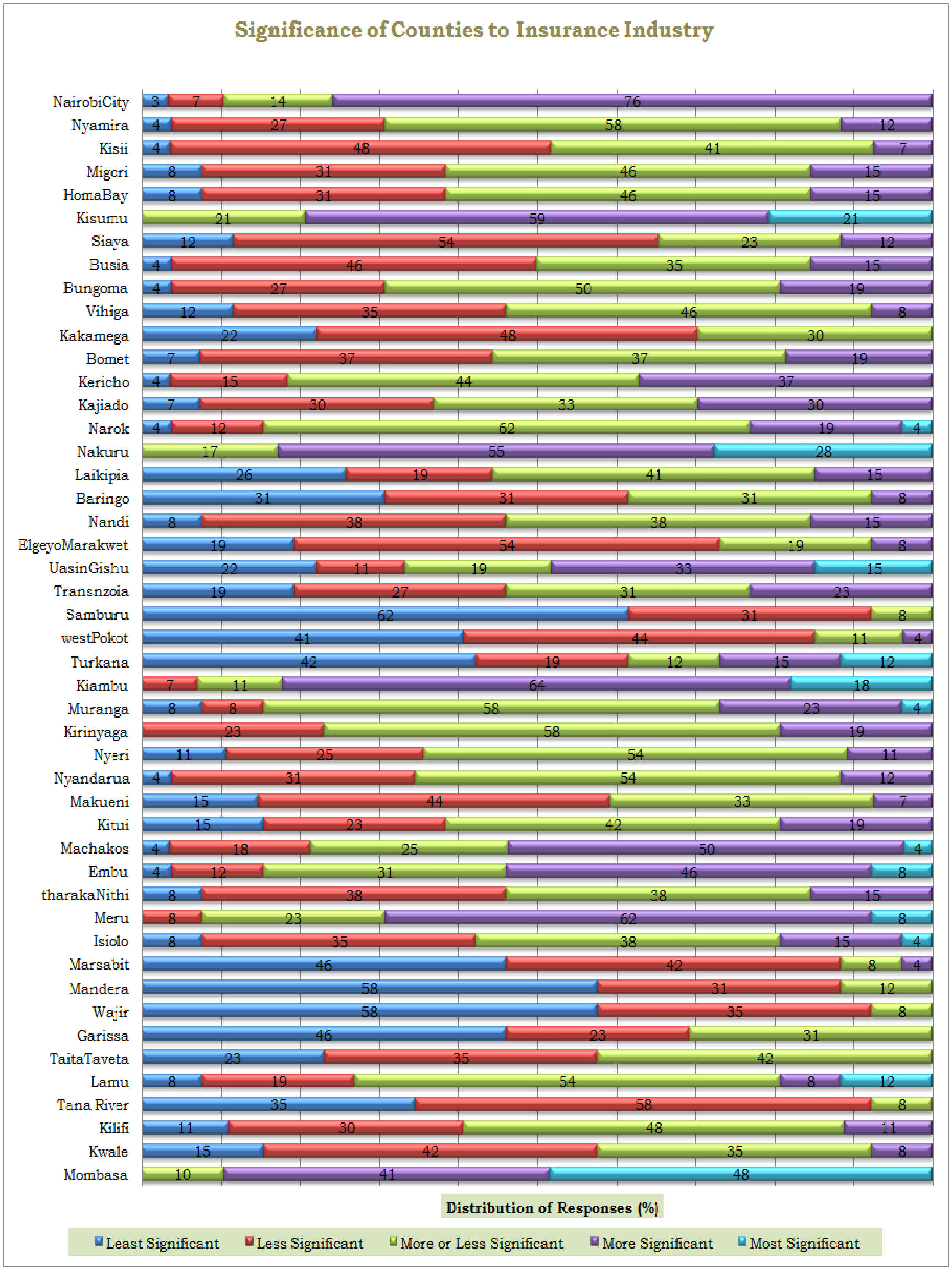

Figure 20: Significance of Counties to Insurance in 2013 - Distribution

b. LIKELIHOOD OF THE COUNTIES TO ATTRACT NEW BRANCH

Nakuru emerges top as the county that will most likely attract at least a branch of an insurance company in 2013 followed by Kakamega, Machakos, Kiambu, Nyeri, Kisii, Kisumu, Meru, Uasin Gishu, Lamu, Nairobi and Isiolo respectively in the top 10, see figure 21. What remain unanswered is why these counties are seemingly attractive and why the rest seem unattractive? As earlier indicated the industry players may consider visiting KenInvest at http://www.investmentkenya.com/kenya-by-county for facts and figure of respective counties. Information on county demographics, economic activities, key resource potentials, cultural diversities, per capita expenditures, the administration headquarter and other relevant details are housed at this Authority (and website).

However, it is worthwhile to note that some CEOs argued that the choice of the counties they are likely to open new counties is informed by how strategic the proposed headquarter will serve the neighbouring counties. It can also be appreciated that the current branch network and business potentials influenced on the choice of where a branch is desirable.

In Figures 19 and 20, the following observations can be made. Firstly, though Mombasa was seen to play a key role in the growth of insurance business in 2013-2017, it loses to some counties on prospects of attracting a new branch. This may imply that the existing companies are most likely having enough branches or strong agents there. Secondly, Kakamega, Nyeri and Kisii gain remarkably in terms of probability of attracting an insurance company branch though they did not rank in top 10 insurance companies' significance to the insurance business in 2013 – 2017. This translates to both insurance seed investment and vibrant business operations as likely in these three counties. Thirdly, Nakuru, Kiambu, Kisumu, Uasin Gishu, Machakos, Lamu, Isiolo, Meru, and Nairobi City retain their competitiveness in terms of its significance and probability of attracting a branch of insurance company in 2013. The rest of the counties are likely to continue benefiting from insurance business moderately as before. More research is recommended to investigate the reasons behind this development and possible solutions to ensure even spread of insurance business in Kenya.

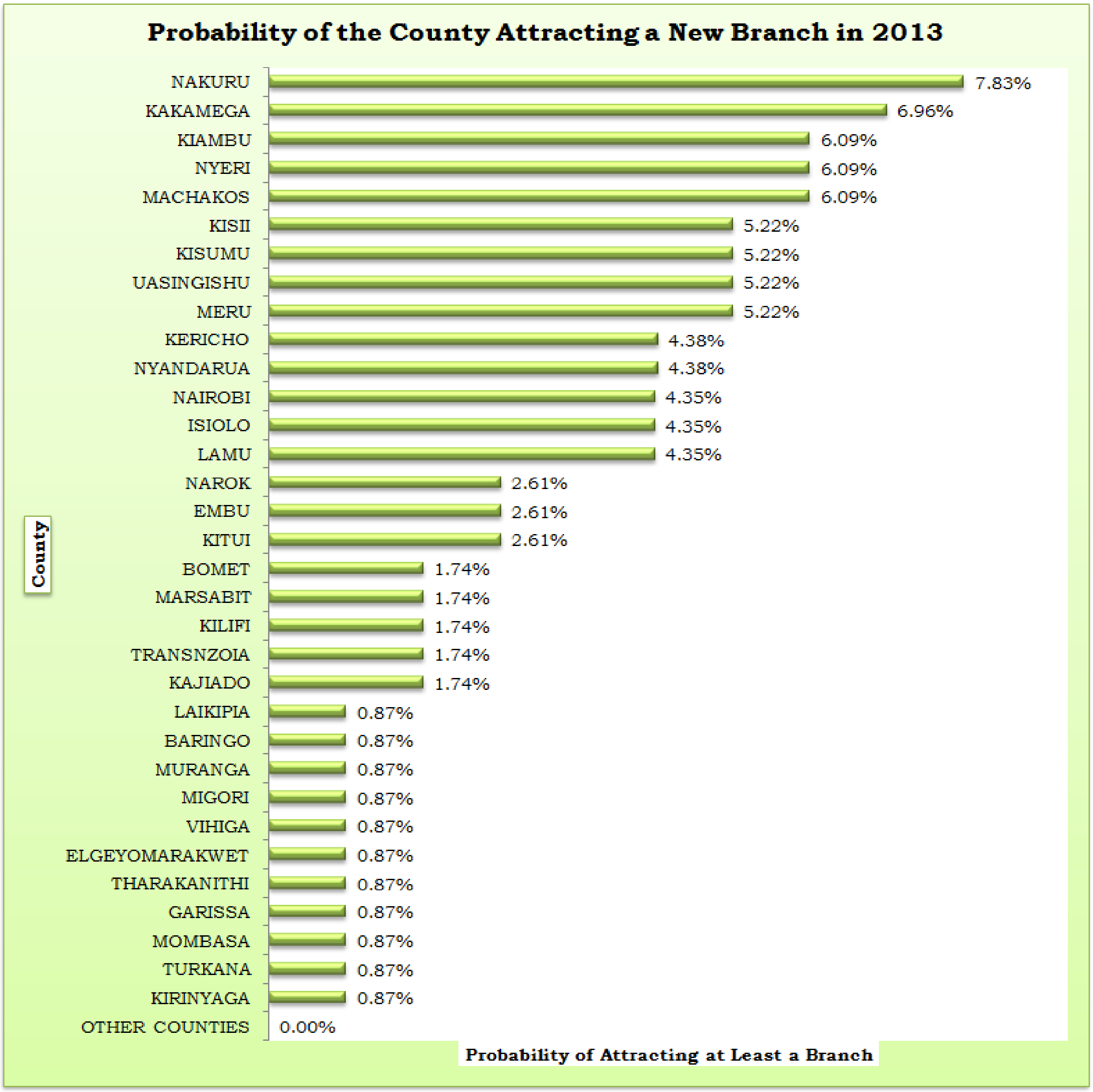

Figure 21: Probability of the County Attracting a New Branch in 2013

4.10.1. INSURANCE INDUSTRY GENERAL ISSUES OF CONCERN

The following issues were raised during the survey and can form a basis for further research to inform policy. Such research should ascertain their intensity and ways of solving them. Therefore, stakeholders may consider these issues as potential areas for research and policy development for mitigation.

1. Proper underwriting/ undercutting controls
2. Micro-insurance deepening
3. Fraud eradication
4. Perception of insurance industry
5. Market penetration
6. Full implementation of cash and carry
7. Increasing insurance education & awareness
8. Mandatory insurance for government assets
9. Mandatory funeral and hospitalization insurance for all employers of over 5 employees
10. Mandatory funeral expense cover for all civil servants
11. Mandatory fire and life insurances.
12. Integration of the financial sector services
13. Balanced regulations that protect consumer and encourage business uptake
14. Consolidation of insurance regulations and guidelines
15. Encouragement of self regulation mechanism
16. Balancing of investment portfolio
17. Tax relief on life assurance premiums
18. Review of solvency margins
19. Review of distribution of surplus in life assurance
20. Allowing ICT hardware & software as admitted assets
21. Strict regulation and increased disclosure on insurance brokers
22. Full implementation of RBS
23. Banks full involvement in banc-assurance
24. Merger of companies & barrier to entry
25. Flexible premium payment mode and improved premium collection.
26. Inclusion of rights of insurers in the Insurance Act
27. Enhancing mandatory excess requirement
28. Rules for fair competition
29. Enhancing distribution channels such as: Mobile phone, web based selling, banks, supermarkets etc
30. Relative unprofitability of insurance within financial services sector
31. Automation enhancement
32. Mega risks underwriting
33. Full implementation of traffic rules
34. Structured compensation
35. Review of rates of permitted expenditure
36. Industry database for reference
37. Non- remittance of premiums
38. High losses in motor and medical classes of insurance
39. Review of NSSF rates
40. Insurers undertaking risks without approved reinsurance
41. Inexperience in the industry people in risk awareness and management skills
42. Ambulance chasing
43. Misselling

5. CONCLUSION AND RECOMMENDATIONS

5.1. CONCLUSION

The industry is operating at an average capacity indicating that there is room for growth thus showing the need for it to be reenergized to a higher scale of operation. The 2013 overall risk exposure predictions ranges between moderate and major exposure but there are no major exposure worries that can destabilize the market. There are moderate hopes in improvement in growth determining indicators. Research & development and marketing initiatives have been seen to be picking up but there is more room for improvement in order to make more sustainable progress in the industry. However, a number of strategic issues emerge that need thorough research, consultation and lobbying in order to boost the growth and development of the insurance industry.

The road ahead is full of opportunities that the industry should exploit. Stakeholders are advised to research further on the strategic issues raised in this survey before making major conclusions and decisions. This survey points at key areas where resources needs to be deployed and lays a foundation for further debate and research on the key issues which influences policy and business in the Kenya insurance industry.

5.2. KEY RECOMMENDATIONS

The following suggestions to mitigate on the raised strategic issues are made to the stakeholders:

1. Develop Insurance sector image management strategy.
2. Improve IFIU visibility and companies to set clear fraud detection strategies.
3. Set intermediary development strategy and enhance brokers' disclosure requirements.
4. Deepen insurance consumer awareness and education measures.
5. Encourage more Innovativeness in product development and marketing.
6. Consolidate regulations, encourage compliance and enhance enforcement
7. Research on the strategic industry issues pointed out such as:
    a. Price undercutting;,
    b. Fraud in motor and medical classes;
    c. The role of insurance in employment and investment;
    d. Optimal asset mix and investment portfolio;
    e. Principal-Agent problem from a microeconomic perspective;
    f. Optimal market competition and industry size for stability;,
    g. Intermediaries development, empowerment and disclosure;
    h. Insurance inclusion across the 47 counties;
    i. Determinants of insurance uptake in Kenya.