

# **MICROINSURANCE: ISSUES, CHALLENGES AND POLICY REFORMS: *A KENYAN PERSPECTIVE***

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## Agenda

- Insurance industry in Kenya
- Regulatory environment for microinsurance
- Regulatory issues affecting microinsurance.
- The way forward for microinsurance business.

## Insurance industry in Kenya

- There are 44 insurance companies, 2 reinsurance companies.
- Approximately 200 insurance brokers, 4,000 insurance agents.
- The gross direct premium for the industry as at 31<sup>st</sup> December, 2008 was Kshs.55.24 billion (USD 726 million)
- The total assets are Kshs.154.45 billion (USD 2 billion).

***Amando vergilio dos santos junior***, chair of the IAIS subgroup on microinsurance on an optimistic note remarked that, “microinsurance holds the promise for a massive expansion globally and is bound to contribute towards realizing the goal of access to insurance”. He emphasized: “The challenge before us today is to elaborate standards that allow low-cost delivery of insurance services without exposing customers to unnecessary risks and costs”

# Regulatory environment for microinsurance

- The insurance industry in Kenya has regulatory laws, regulations and rules designed to ensure the stability of the insurance system and to protect the interest of policyholders.
- However, these laws, regulations and rules have developed over time with traditional insurance in mind which is inaccessible to the poor.
- The supply of commercial insurance to low-income households from the informal sector seems to be constrained by overly restrictive regulatory environment.
- Minimum capital requirements, licencing, distribution channels and investment restrictions that are often designed for higher-income markets seem to limit the providers' ability to offer insurance to low-income customers.

## Microinsurance Status in Kenya

- At the moment some insurance companies are offering microinsurance products.
- Co-operative Insurance company gives covers to SACCOs.
- British American insurance company Limited has developed a microinsurance product for tea farmers.
- AIG (K) offering weather index linked agricultural product for farmers
- MFIs offer microinsurance products e.g. Faulu Kenya, K-Rep bank etc.

## Microinsurance status in Kenya.....continued

- Equity bank with over 50% bank account holders in Kenya.
- Equity Bank have an insurance agency which did over Kshs.800 million (USD10.5million) in terms of premium in the first year of operation.

## Regulatory issues affecting microinsurance

- Lack of adequate understanding of microinsurance (including the regulating agency).
- Lack of appropriate information on microinsurance.
- Legal framework not supportive of microinsurance e.g. minimum capital requirements
- MFI's as insurance agents or brokers

## Regulatory issues affecting microinsurance.....continued

- Management expenses may be prohibitive for a microinsurance provider.
- The Current regulatory system outlines on investment policies which might not apply to a microinsurance provider.
- The Insurance Act provides guidelines on the commission to be paid to the intermediaries.
- The distribution channels may not be the same as for conventional insurance products. The Act specifies who are the intermediaries.

## Regulatory issues affecting microinsurance.....continued

- Microinsurance has not been specified under the current classes of insurance business.
- The Insurance Act requires that an actuarial investigations to be conducted once every year. The cost for these valuations could be quite high for microinsurers.
- Lack of data on microinsurance especially the amount of premiums written since it is not defined in the law.
- Need to review regulatory framework as it affects microinsurance
- Insulating microinsurance from micro-loans e.g. KUSSCO an umbrella body for cooperative societies involved in some underwriting for microinsurance

# The way forward for microinsurance business

- Develop national insurance policy on microinsurance.
- Review of the current regulatory framework to recognize microinsurance.
- Changing the regulatory regime from rule based to risk based supervision.
- Identification of barriers in the delivery of microinsurance.
- Review the technical capability and capacity of the supervisor to effectively supervise and monitor the operations of microinsurance providers.

# The way forward for microinsurance business..... continued

- Setting up benchmarks and performance standards.
- Form technical working group meetings and discussions among all stakeholders.
- Develop supportive infrastructure and a favourable tax regime to enable the sector to grow.
- Information and education campaigns to create awareness.

## The way forward for microinsurance business..... Continued

- Develop simple microinsurance policies.
- Develop products which suit the low-income people.
- Monitor market developments and respond with appropriate regulatory adjustments.
- Documentation of existing microinsurance practices adopted by insurers, MFIs, SACCOs, hospitals etc.

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