AFRICAN POLICY APPROACHES: MICROINSURANCE IN KENYA

AIO – A2ii REGULATORS' WORKSHOP, VICTORIA FALLS, ZIMBABWE

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Agenda

- Introduction
- Current Distribution of Micro-insurance in Kenya
- Entrenching Micro-insurance
- Regulatory Challenges & Way Forward for Micro-insurance in Kenya
- Conclusion

INTRODUCTION:

MICRO-INSURANCE

Definition of Micro-insurance I

- Kenya chose to adopt the definition of micro-insurance provided by the International Association of Insurance Supervisors (IAIS) as follows: "***insurance*** that is ***accessed*** by, or accessible to the ***low income population***, potentially provided by a variety of different providers and managed in accordance with generally accepted insurance practices"
- Further, it was acknowledged by insurance stakeholders in various forums that micro-insurance does not operate in isolation but forms part of the broader insurance market, distinguished by its particular market segment.
- In defining the micro-insurance 'space' in Kenya it was noted that the 'low income' target market are persons generally ignored by the mainstream commercial and social insurance schemes and have not had access to appropriate products in Kenya.
- According to the United Nations Development Programme (UNDP) any person who earns less than US$2 per day is considered low-income.

Definition of Micro-insurance II

- Those earning under USD$2 a day may not be in a position to mitigate risk through insurance.
- The target market for micro-insurance in Kenya have a higher level of income than the poverty line and are able to:
  - Use micro-insurance as a risk pooling instrument for the protection of their households;
  - Benefit sufficiently from the small benefits provided by micro-insurance; and
  - Meet their most basic needs as well as pay the low levels of premiums.

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CURRENT DISTRIBUTION OF MICRO-INSURANCE IN KENYA

Insurance Industry Structure I

- The Insurance Regulatory Authority has within its mandate a developmental role and specific targets toward increasing penetration of insurance in Kenya.
- A specific concern is that the insurance sector is only serving 8.4% of the total population under long term insurance business (inclusive of those insured under group life) .
- Over 90% of the population in Kenya is exposed to many risks in life, many of which are insurable and the poor are the most exposed.

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Insurance Industry Structure II

- Less than **ten (10)** insurance companies are offering micro-insurance products on a 'window' basis as part of their portfolio.
- The insurance companies offering micro-insurance are mainstream insurance companies selling the conventional insurance products.
- There are other formal and informal organizations/institutions which operate risk management schemes:
  - National Hospital Insurance Fund (NHIF)
  - Micro-Finance Institutions (MFI's)
  - Credit Societies (SACCO's)
  - Non-Governmental Organizations (NGO's)
  - Hospitals
  - Community based 'insurance' providers (*chama's)*

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ENTRENCHING MICRO-INSURANCE

Potential for Micro-insurance I

- ✓ ***Amando Vergilio dos Santos, Junior***, Chairperson of the IAIS sub-group on micro-insurance on an optimistic note remarked that:

  "Micro-insurance 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".

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Potential for Micro-insurance II

- In recognition of the potential to develop the insurance industry and increase insurance penetration in Kenya, the IRA working with the Association of Kenya Insurers (AKI) supported by the ILO, FSD-Kenya and UNCDF commissioned a landscape survey on the opportunities and challenges for micro-insurance in Kenya.
- Report prepared by the Centre for Financial Regulation & Inclusion (CENFRI) by December 2010 concluded the following:
  - ✓ Regulation poses barriers but these are not insurmountable;
  - ✓ Micro-insurance offers an opportunity for the whole industry to grow;
  - ✓ As a start, focusing on anchor risks can help overcome distrust in the industry;
  - ✓ Health risks have already been a growth and innovation point for MI in Kenya;
  - ✓ Agriculture offers opportunities around value chains and networks;
  - ✓ Banks and payment system network agents offer distribution channels.

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Actualizing the Potential

- A Micro-insurance Working Group with representation from the industry, the Government and development partners was convened by the Authority with a view to mobilizing all necessary participation in ensuring MI is entrenched as a tool for socio-economic empowerment for low income Kenyans.
- The MI Working Group works under a clear work-plan which is currently focused on unveiling a MI Policy Framework within the Year 2011, clearly setting out:
  - ✓ Definition and Vision for micro-insurance in Kenya;
  - ✓ Demand-side intervention required;
  - ✓ Supply-side intervention required; and
  - ✓ Enabling environment interventions.
- To augment and support the efforts of the MI Working Group a micro-insurance project is being set up which will be manned by a Project Co-ordinator who will provide technical assistance and expertise for implementation purposes from Mid-2011.
- Identified 'quick-wins' are already being implemented.

REGULATORY CHALLENGES & WAY FORWARD FOR MICRO-INSURANCE IN KENYA

Regulatory Environment for Micro-insurance

- The insurance industry in Kenya has a regulatory framework that is 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.
- It is clear from the statistics that these traditional products continue to be inaccessible to the poor.
- The supply of commercial insurance to low-income households seems to be constrained by an overly restrictive regulatory environment.
- Minimum capital requirements, licensing, 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.
- On further scrutiny however it is evident that minimal changes to the legal framework and in the regulatory system can provide an adequate basis for the entrenchment of micro-insurance in Kenya.

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Way Forward I

- In the regulatory environment encouragement is required to tap into a wide range of distribution channels for micro-insurance under appropriate guidelines and with appropriate financial sector wide supervision where necessary.
- Brainstorming on distribution channels provides for opportunities to use the following network:
  - Insurance intermediaries
  - Direct insurers
  - Microfinance institutions
  - Non-governmental organizations
  - Funeral parlors
  - Banks
  - Direct selling
  - Mobile services
  - Mobile banking
  - Community based health organizations
  - Shops & supermarkets
  - Petrol stations
  - Public utility companies.

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Way Forward II

- Identify barriers to sound micro-insurance practice.
- Documentation of existing risk management schemes and micro-insurance practices adopted by insurers including collection of adequate data.
- Develop a simple but sound micro-insurance policy framework to grow and develop the business.
- Develop products which suit the low-income people's needs backed by an efficient delivery system so as to increase penetration.
- Review of the current regulatory framework to accommodate micro-insurance by way of appropriate rules, regulations and/or guidelines.
- Develop supportive infrastructure and a favourable tax regime to enable the sector to grow.

Way Forward III

- Review the technical capability and capacity of the supervisor to effectively supervise and monitor the operations of micro-insurance providers.
- Build capacity for micro-insurance providers.
- Information and education campaigns to create awareness.
- Set up benchmarks and performance standards.
- Monitor market developments and respond with appropriate regulatory adjustments.

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CONCLUSION

Conclusion

- Key challenge facing the insurance industry in Kenya – low penetration:
  - General lack of a savings culture among the African populace.
  - Low disposable incomes for the majority of the population.

- Opportunities exist for growth of the industry - potential is dormant until it is exploited.

- Innovation tempered with foresight.


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Questions & Comments Welcome

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