Marine insurance: Is Kenya's insurance industry ready?

Kenya's marine insurance requirement is an opportunity for our insurance industry to shine.

Treasury CS Henry Rotich announced in his 8 June budget speech that the KRA will require importers to use local insurers for marine insurance. From 1 January 2017, KRA will implement the relevant section of the Insurance Act. Whilst some of the finer points of this new requirement and how it will be applied are still being contented, what is clear is that there is still significant apprehension amongst some importers. This is to do with a range of concerns from perceived capacity challenges, price and coverage provided to delays in settlement of claims.

Marine cargo insurance policies protect the insured against losses incurred following loss and/or damage to the goods whilst in transit such as imports or exports. Usually the cover is against all risks subject to certain exclusions depending on the description of goods and packaging.

For insurers, this change is coming at a good time. According to the World Bank's recent Kenya Economic Update, imports of goods and services are projected to increase 6.2% in 2016 and 7.6% in both 2017 and 2018.

Previously, our regulatory framework and a lack of local market awareness were blamed for the weak uptake of marine insurance products offered by Kenya's insurance companies. From 1 January 2017, however, all direct marine insurance must be placed locally. This change provides insurers with an opportunity for profitable growth and much needed diversification from the volume-driven business of motor and medical amongst others. However, they must do the appropriate research to ensure importers' concerns are fully addressed and improve market awareness of their capabilities.

Awareness in the market is partly a perception issue. Many of the largest importers are placing some if not all of their insurance locally anyway. Closer to source, they feel like they can have a good relationship with their brokers and/or insurers. But Kenya's insurers have a responsibility to demonstrate that they have the capacity and expertise to deliver full cover marine insurance in-house without settlement delays.

Detailed market research will help Kenya's insurance companies to design effective strategies for marketing marine insurance to appropriate customer segments. Their go-to-market approaches should target the right market segments: bulk imports of steel, clinker, fertiliser and other large volume classes of imports, and retail insurance for smaller-scale imports of cars or individual containers of edible oil, for example. In addition to educating their agents about the retail market for marine insurance, insurers can use cost-effective technologies like mobile applications to help customers compare products and prices.

One of the main concerns of the importers has been the capacity of local underwriters to handle large shipments. Local insurers are taking steps towards addressing these concerns. In particular, most local insurers will have already had conversations with reinsurers to increase their capacity to take on risk by increasing their reinsurance cover. These reinsurers are predominantly large global players with solid balance sheet strength and strong credit ratings – this should give importers further confidence in the insurance industry ensuring that the right capacity and ultimate protection is created for their customers.

Co-insurance allows multiple insurers to cover the risk of valuable contracts, which should help to spread risk in the market. The practice of co-insurance is well established in Lloyd's of London, for example. This model allows Lloyd's to take on very large risks like insuring airlines by spreading the risk amongst several insurers. The concept is not unknown here;

five insurance companies in Kenya formed a consortium in 2014 to offer the police force medical insurance cover and other such "deals" are likely to continue emerging.

Co-insurance can help to optimise the total capacity in the market and thereby help reduce the overall cost of the insurance as each insurer would tie up less capital than if they took on the whole risk. Indeed, co-insurance can help smaller insurers participate in the marine insurance segment. Customers would still deal with the lead insurer with whom they may have a long-standing relationship but likely benefit from lower insurance premiums.

So, whilst the challenges raised by importers are not unfounded, it is fair to say that Kenya's insurance industry is capable of underwriting marine business with similar if not identical products to those that are already on offer. That said, the insurance industry still has some way to go to ensure that importers gain full confidence in the level of cover being offered and benefit from competitive pricing.

Gauri Shah is an Associate Director and leads PwC's Actuarial practice for the East Market Area.