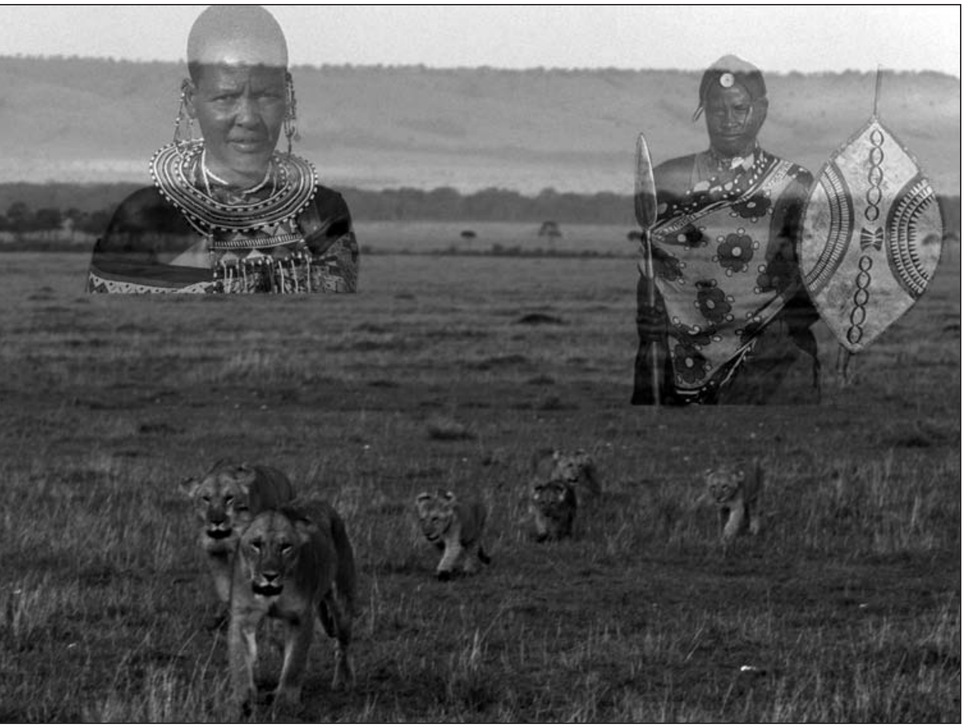
An Update from Kenya

by Shiraz Jetha



Kenya is a country of some 31 Million people located on the eastern coast of Africa, neighboring Tanzania and Uganda—both with similar populations. From an insurance industry perspective, Kenya has 20 companies writing long-term (life insurance, pensions and annuities) business and 37 companies writing general (or P&C; short term—includes medical) business.

Reinsurance capacity is available through two locally resident reinsurers, two regional ones and several "global" reinsurers maintaining offices locally, but operating principally from South Africa.

Insurance business is regulated under the Insurance Companies Act of 1988, which requires actuarial involvement in the long-term business through annual statutory reporting and filing of rates for life insurance products offered. Revisions to the Act are under consideration to strengthen as well as to update for global trends in regulation.

HMOs started operations in the mid-1990s (although at least one has been present longer) as an alternative to insured programs offering broader and cheaper coverage. They became popular and quickly gained membership—offering strong competition to the insurers. However, their subsequent decline in the late 1990s could be attributed to lacking actuarial, management and financial expertise as well as being thinly capitalized (not being subject to any capital requirements). In 2004, the insurance act was amended to bring these organizations under the regulatory umbrella. The thrust of the legislation is to severely limit risk-taking by these organizations. For the medical business, the pendulum has swung back to insured programs (and higher prices).

HIV/AIDS is a significant issue for the country (where half the population is under age 20 and life expectancy at birth is under 50) and for the industry. It has resulted in a cautious approach to underwriting, an evolution of the product design to more investment-oriented features and lack of (or limited) coverage for deaths on account of AIDS. For group life, there has been steady liberalization in amount of and coverage for AIDS, especially under the free cover limit.

Beyond insurers, a second area in which actuaries are involved is in defined benefit company pension plans. At one time numbering in excess of 200, these are now either winding down or converting to defined contribution plans and number around 150. The main reason for the change is the poor funding of the programs resulting in higher sponsor contributions. This has been aggravated by salary inflation, poor remittance of sponsor contributions and by improving plan benefits with time. Investment returns have, in general, been at anticipated levels.

The presence of actuaries in insurance companies has been virtually nonexistent with most of the required work done by consulting actuaries—locally based as well as those offering services from abroad (South Africa, Pakistan). In the past, some locally based companies closed their offices, essentially leaving two local firms operating in Kenya for

several years. This too is beginning to change as new organizations expand into actuarial work. Currently there are five Fellows—two FSAs and three FIAs. In addition, there are three ASAs as well as a handful of individuals who have made solid progress in the examinations of the Institute of Actuaries. The latter organization has more of a presence now in Kenya with many students working for the FIA designation.

The actuarial profession has an "elitist" image in Kenya and hence has popular appeal among students, not least because of the success of Kenyan actuaries abroad. Both of the major universities offer undergraduate programs in Actuarial Science. Unfortunately the industry has been slow in absorbing graduates, although this is beginning to change. With a growing actuarial community, the profession on June 16, 2005 launched the Actuarial Society of Kenya. It is hoped that over time, the Society will play a leading role in the region and will be able to influence the thinking in key areas, including regulation of insurers and HMOs, governmental social programs and asset management businesses. ☐

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