



# Implications of COVID-19 on insurers' risk management and insurance steering for East Africa

Update 06/05/2020

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Version for external circulation



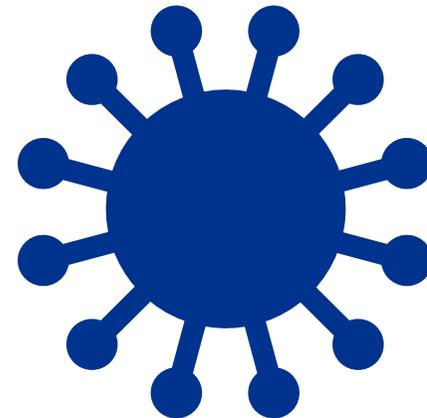
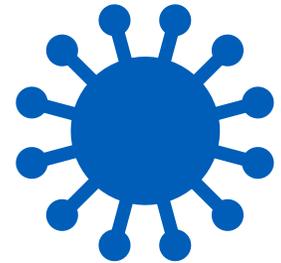
# Objective of this document and disclaimer

COVID19 is in the first place a pandemic with potentially terrible implications for people's health. It is an unprecedented challenge for our modern societies and health systems. The consequences of the pandemic for our global economy and financial sector are unpredictable. Economists are convinced that we are heading for a significant economic downturn and depending on the duration of the pandemic potentially a serious global recession.

KPMG has analyzed how insurers in the region are and will be affected. This document summarizes our conclusions for insurance management teams. It provides first recommendations that management should consider in these very difficult times. It helps to specify action plans and assists you to navigate in turbulent waters.

The document will be updated regularly as new developments arrive daily. Governments, politicians, regulators, supervisors and other decision takers are responding to latest news on the pandemic. We are including such developments as they materialize and apologize for any delay that might occur given the speed of change.

We are here to help.



# Agenda

01	Implications of COVID-19 for Insurers'	p. 4	
02	Supervisory measures in the context of COVID-19	p. 5	
03	Scenario Landscape: General challenges from COVID-19	p. 8	
04	Insurers' current challenges from COVID-19	p. 10	

# Implications of Covid-19 For Insurers

## Workforce Transformation

- New workforce management practices and increased use of technology
- Move towards keeping employees and customers safe
- Shift to remote working and effects of lock downs & curfews, limited travel
- Challenges in keeping the distribution channels working - obtaining renewal information - including information around exposures, applying data assumptions and maximizing the use of publicly available information.
- IT infrastructure support - more difficulty providing administrative services and managing staff remotely

## Technology Adoption:

- Insurers drive towards a wider adoption of technology in wake of COVID-19.
- Connectivity challenges hence need scale up VPN concentrators, portals and gateways to handle the traffic.
- COVID-19 has sadly amplified the security and the cyber threat
- Digitised is optimised/ insurtech
- Cloud implementations are also expected to increase
- Perhaps, indeed, COVID-19 was the digital wake-up call the industry needed.
- Those that fall back to the old ways are likely to lose market appeal.

## Operational Challenges

- Business interruption policies were generally not designed or priced to provide coverage against communicable diseases, such as COVID-19
- Will exclusions for that risk continue?
- Dealing with channel overload
- Huge spike in customer contacts and queries
- Fraud risk monitoring – fraudulent claims, ransom ware and malware attacks still present
- Bad actors seeking to exploit vulnerabilities for various purposes - to obtain customer data, siphon off financial information, or disrupt services.

## Insurance Risk, Capital and Solvency

- Non-financial risks arising from uncertainty and timing of claims
- Solvency as insurers' capacity to meet its short-term liabilities and long-term financial commitments
- How will COVID-19 and the related financial markets impacts affect the insurers
- Minimum capital levels and the risk based capital defined by regulators in by June 2020

## Embedding Resilience and Enterprise Risk Management

- Addressing the business challenges presented by COVID-19
- Crystal-balling a post COVID-19 world requires divination of two key questions: when will it happen; and what will it look like?
- Government and institution measures in response to COVID-19 Ability to respond and adjust more quickly and remain agile and resilient to master disruption and maintain momentum.
- Continue to act on strategic plans and in some cases, craft new ones
- In a dynamic global risk environment, the threats are multiplying, but so are the opportunities to predict them, mitigate them and profit from them
- A well protected enterprise is not just a safe pair of hands, but has the potential to be the most confident and disruptive innovator on the block.



## Reporting

- What are the specific accounting implications for insurers?
- What have insurance reports included about COVID-19 in the 31 Dec 2019 financial statements signed end of March 2020?
- How do Q1 financial statements look?
- What are the forecasts to end of year-end and beyond
- Have insurers performed stress tests on their performance including best case and worst case scenarios?
- Any impairment consideration on investments in assets that back up policyholder liabilities?

# Supervisory Measures in East Africa as at 30/03/20



Kenya IRA

Uganda (IRA Uganda)

Rwanda (BNR)

Tanzania (TIRA)

Capital & Liquidity Relief

Insurance companies to conduct and submit to the authority a stress and scenario testing including updating of capital adequacy calculations and liquidity strains as a result of Covid 19 exposure

Apart from Deposit Administration plans and profit policies, no insurer or HMO shall issue bonuses or engage in any distribution including payment of dividends to shareholders and other persons unless permitted by the Authority.

No payment of dividends without regulator approval

No specific measures touching on Capital & Liquidity relief by TIRA.

Monetary Measures

Policyholders to be provided with a 3-month grace period. which may be over and above any existing contractual premium holidays

Grace period of for lapsation of life policies extended by an additional 90 days while that for medical and non life policies under premium instalment payment extended by an additional 60 days.

No specific measure communicated

No specific measures touching on Monetary Measures by TIRA.

Supervisory Practice

Insurers to pay last expense claims or death benefits arising out of coronavirus expeditiously even in case of delayed submission or absence of required documentation.

Electronic copy of returns and annual financial statements submitted on 31<sup>st</sup> March 2020 or as agreed with IRA. Paper copies to be submitted five (5) working days, on expiry of the lockdown as announced by government.

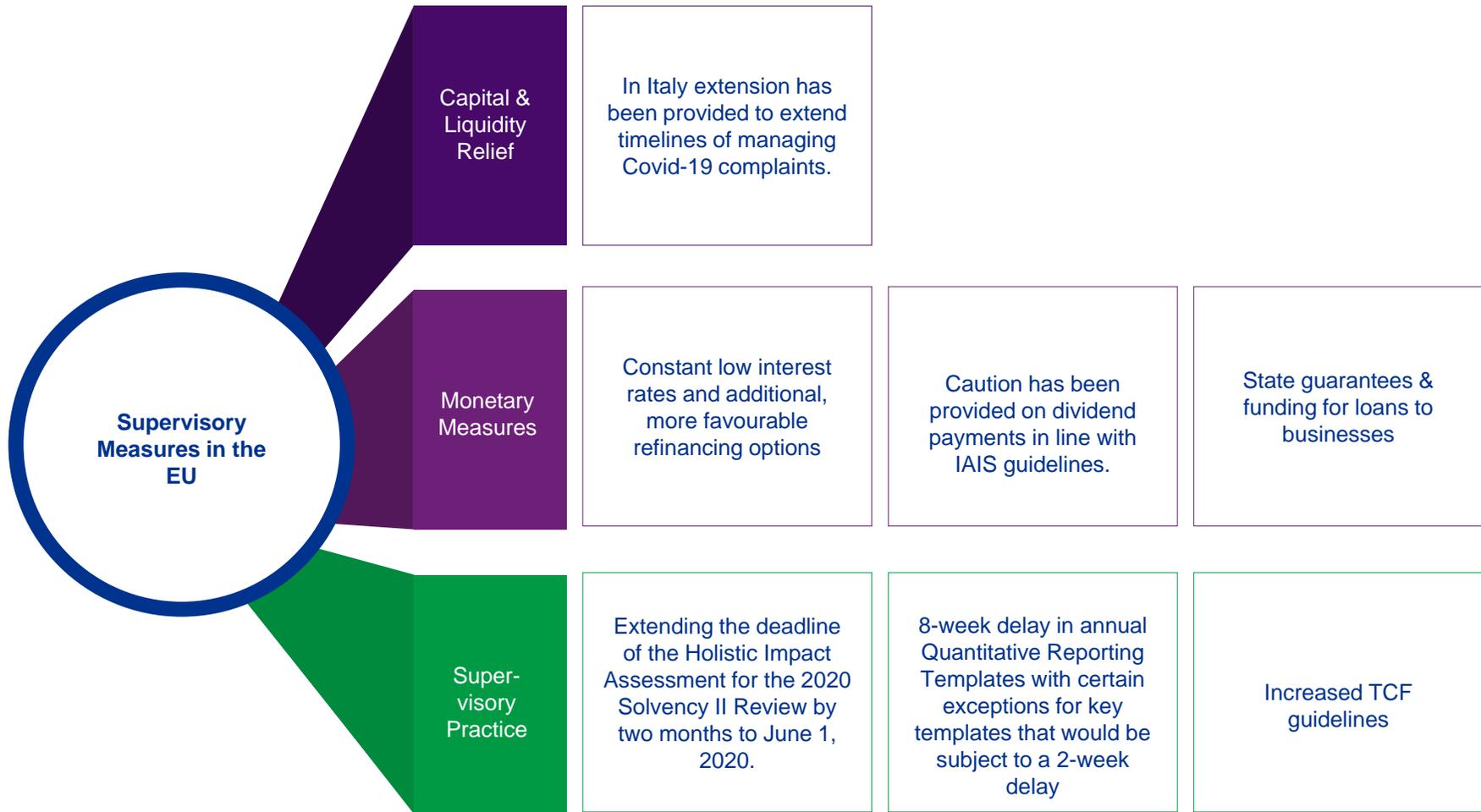
Admission of receivables( of up to 90 days) in the solvency margin computation allowed to end of June 2020

No specific measures touching on Supervisory Practice by TIRA.

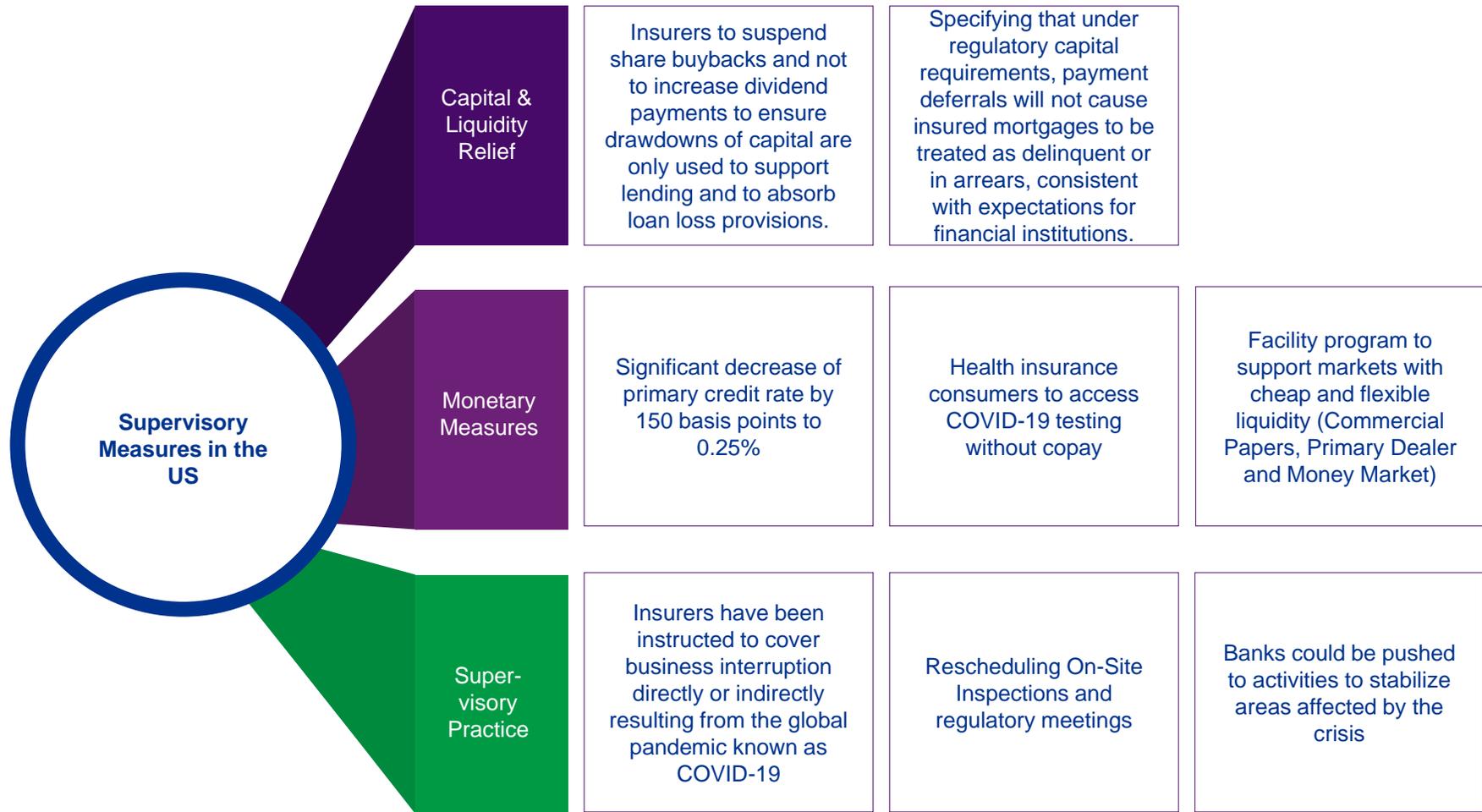
**Supervisory Measures in East Africa** as communicated by Insurance Regulatory Authorities of Kenya, Uganda, Rwanda and Tanzania.

Ethiopia and South Sudan are yet to issue similar directives as at 30/4/20.

# Supervisory Measures in Europe



# Supervisory Measures in the US & Canada



# COVID-19 scenarios – general assumptions

## General assumptions



Economically, COVID-19 will have supply as well as demand effects.

- **Demand:** Companies as well as households will **hold back spending** as well as investments. **Government-spend** will increase massively, but can not compensate the two other sectors fully
- **Supply:** delivery chains will suffer, especially those which rely on global trade and/ or are highly complex. Many business forced to shut down temporarily (retail shops, services, etc.)



COVID-19 is highly infectious, i.e. **no full containment until either vaccination** and/or effective medicine is available **or society-wide sufficient level of immunity** is reached



**Massive economic political interventions** can be expected:

- State funds and guarantee schemes
- Monetary policy interventions (e.g. exchange rate stabilization, bond and/ or other financial instruments programme)
- Further legislative measures, e.g. regarding insolvency law, default-counterbalancing measures, etc., which aim at reducing procyclicality

Essentially two alternatives



Uncontrolled spread

Containment until vaccination



See next slide for details of these scenarios

# COVID-19 scenarios - two main alternatives

Current widely taken approach for East Africa



## Society

- Collapse of medical care
- Massive governmental measures to maintain public order and supply of citizens with basic goods and services

- Slow-down of spread until vaccination:
- Society “slower” and less interactive, but not dysfunctional
- Medical care can withstand pressure



## Financial markets

- Most segments frozen rather sooner than later after massive losses or (safe-harbour effect) gains

- Temporary and/or segment-wise closures possible but official and effective counterbalancing, e.g. via central bank balance sheets, cushions sufficiently in principle



## Economy

- Supply and demand concentration on basic goods and medical care/ equipment
- Literally a stop for other economic sectors
- Massive official interventions to “freeze” economic infrastructure. After that: Public measures comparable to those after World War II to restart society and economy

- Slow down of enterprise demand and spend of households
- Some goods and services, e.g. those perceived as “luxury” or as “once in a lifetime” or those with complex supply chains, temporarily not demanded/available
- “Technical” political intervention, e.g. regarding procyclical regulations/laws, to counterbalance economic effects (insolvencies, unemployment,...)



## Time frame

- Scenario would materialize quickly, potentially around mid-April/early May, and last approximately until end of year 2020

- Scenario would materialize quickly, potentially around mid-April/early May, and last approximately until end of year 2022



## Recession pattern

Recession-pattern: V-type, with slower/flatter 2nd leg of the V



Recession-pattern: U-type, with a longer “\_” of the U; not necessarily a slower 2nd leg



# Impact on insurance steering & risk mgmt.



● High impact    
 ● Medium impact    
 ● Low impact

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