Kenya's insurers between a rock and a COVID-19 hard place

As governments begin to ease restrictions put in place to contain the spread of COVID-19 pandemic and revive tumbling economies, the insurance industry continue to be battered by the resultant effects of the pandemic due to uncertainties in the market, increased claims and hostile market environment that has for a long time relegated insurance to a nice to have as opposed to a must have.

Insurers in Kenya are grappling with effects of COVID-19 amidst new capital adequacy requirements by the Insurance Regulatory Authority (IRA). The IRA requires companies to meet 200% (previously 100%) of the Prescribed Capital Ratio (PCR). And while a good number of insurers were compliant by the effective date of 30 June 2020, there are others who had not met this requirement. The current market turmoil puts pressure on insurers to remain sufficiently capitalised and others to navigate the new challenges and comply. The IRA is also closely monitoring the liquidity of insurers in Kenya. In a directive to all insurers, IRA has required submission of stress and scenario tests, including capital adequacy calculations and liquidity strains to determine the impact of COVID-19.

There has been a decline in the gross written premiums during the pandemic as insurers experience reduced insurance uptake in retail and consumer sectors, due to response measures taken by various entities. Brokers are also struggling and bringing in considerably reduced number of policies. Insurers have faced more cancellations and non-renewal of covers during this period more any other time in recent history. For example, private medical policyholders are reassessing and terminating non critical policies such as medical cover that allows access to elective surgery or other ancillary services like dental care. Additionally, and due to liquidity issues presented by the market response to COVID-19, there are increased cases of late payment and non-payment of premiums. This is largely due to the premium grace periods and moratoriums offered by the IRA as part of COVID-19 reliefs. There is however an expectation for increased interest in covers around critical illness, disability, life and business disruption. Due to changing financial behaviour in response to uncertainty, policyholders are likely to take up policies that offer savings and investment options such as annuities offered by insurers.

Insurers are also considering innovative products that responds to current market needs, with a good number of insurers rolling out income protection covers in addition to reassessing their pricing strategies in light of current market conditions. For example, there are conversations around usage-based insurance, where the pricing of a motor cover is based on distance covered as opposed to payments of fixed premiums, given reduced policyholders' mobility.

As COVID-19 cases continue to rise in Kenya, there is an expected upsurge in health-related and death claims. Despite most insurers and reinsurers not covering pandemics, the IRA issued a directive in April compelling insurers to promptly process and settle all claims relating to COVID-19, including last expense claims or death benefits arising out of COVID-19. This directive will have far reaching implications and has been compounded further by the fact that it is difficult to predict how long the pandemic will last, and the impact it will have on insurers in the long term.

The COVID-19 pandemic has affected every sector of the economy resulting to massive job losses and pay cuts wave in the country due to the market distress. As a result, claim pay-outs are expected to rise in classes like workers compensation, employer's liability and credit insurance that covers banks against loans that customers cannot pay. Additionally, insurers will have to contend with claims related to business disruption covers for companies. This will likely expose insurers to litigations considering that such covers are not priced to cover against communicable diseases.

Insurers are huge investors. By principle, an insurer collects premiums which are priced based on the risk being underwritten, makes investments and uses the proceeds to make claim pay-outs in the event the risk occurs. Further, the Insurance Act outlines the investment thresholds and spread across various financial instruments. Most insurers invest in equity shares, assets and property among other investments whose prices has plummeted due to economic shocks elicited

by the COVID-19 pandemic; hence exposing insurers investment underbelly.

As insurance staff and customers work from home, there is reduced physical contact, necessitating the need for insurers to upscale their digital operations. Since the onset of COVID-19 pandemic, insurers have noted an increase in customer correspondence as customers reach out to enquire on their policies and in some instances, review their savings plans. As such, insurers have had to leverage on their digital capabilities including online platforms and websites to provide customer experience, pitch for business and engage their stakeholders through webinars. Though this has come at a cost, there are long term benefits as this will ultimately reduce the need for intermediaries and the cost of doing business.

There are potential disputes between insurers and reinsurers, arising from loss exposure by COVID-19 claims. Policies on life covers, for instance when reinsured did not include the coverage of a pandemic. The IRA requirement for insurers to settle claims related to COVID-19 will disadvantage insurers as reimbursements are not guaranteed for covers which do not contain a pandemic or virus exclusion. As such reinsurers may be reluctant to pay for these claims as they seek to protect their balance sheets from further loss as they have already taken a hit especially at the investments front.

During this period, there has been an increase in disputes between policyholders and insurers over claim pay-outs that ended on IRA's table. As a result, IRA has tightened its scrutiny on insurers as it seeks to exercise its mandate to protect policy holders and beneficiaries. To this regard, IRA has issued several guidelines on operations and adjustments to be made by insurers to achieve this objective. The Authority will continue to demand that insurers and reinsurers comply with the Insurance Act, monitor financial performance and liquidity and also provide guidelines on how insurers should continue relating with brokers, agents and customers in the new normal.

In conclusion, the effects of the COVID-19 pandemic will vary from one insurer to another, based on the classes and magnitude of risk underwritten, the reserving employed, pricing of policies, reinsurance coverage and risk portfolio of investments. Insurers need to insulate themselves from the adverse effects of the pandemic by reducing discretionary expenditure; diversifying the risk portfolio of their businesses; assessing profitability of classes of business underwritten;

increasing customer touchpoints by investing in reliable technologies and a review of contingency plans. Insurers may also consider rewording their policy terms, to expressly eliminate liabilities not covered but from which potential legal disputes may arise. Further, there is need for innovative, and fairly priced products that include pandemics and address resultant challenges. As the famous words by Winston Churchill go, "do not let a good crisis go to waste."

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