THE NATIONAL TREASURY AND PLANNING

NATIONAL INSURANCE POLICY

MARCH, 2021

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LIST OF ABBREVIATIONS

Abbreviation	Term
AAISA	Association of African Insurance Supervisory Authorities
AIBK	Association of Insurance Brokers of Kenya
AKI	Association of Kenya Insurers
AKR	Association of Kenya Reinsurers
B2B	Business to Business
B2C	Business to Consumer
B2G	Business to Government
AU	Africa Union
CAK	Competition Authority of Kenya
Cat-DDO	Catastrophe Deferred Draw-Down Option
CBK	Central Bank of Kenya
CMA	Capital Markets Authority
COI	College of Insurance
COMESA	Common Market for East and Central Africa
EAC	East African Community
EAC	East Africa Community
EAISA	East African Insurance Supervisors Association
GDP	Gross Domestic Product
GWP	Gross Written Premium
IAIS	International Association of Insurance Supervisors
I-ATC	Inter-Agency Technical Committee
IIK	Insurance Institute of Kenya
IRA	Insurance Regulatory Authority
KAIRMP	Kenya Agricultural Insurance and Risk Management programme
KICD	Kenya Institute for Curricula Development
KLIP	Kenya Livestock Insurance Programme
MNO	Mobile Network Operators
MOALF&C	Ministry of Agriculture, Livestock, Fisheries and Cooperatives
MOH	Ministry of Health
MTP III	Third Medium Term Plan, 2018-2022
NDEF	National Drought Emergency Fund
NHIF	National Hospital Insurance Fund
OAG&DOJ	Office of the Attorney General and Department of Justice
PSV	Public Service Vehicle
PPP	Public Private Partnerships
RBA	Retirement Benefits Authority
TASK	The Actuarial Society of Kenya
UHC	Universal health coverage
WB	World Bank

DEFINITION OF TERMS

“Actuary” means a person who is a member or fellow of institute, faculty, society, or association of actuaries approved by Insurance Regulatory Authority Kenya

“Agriculture” means cultivation of land and the use of land (whether or not covered by water) for any purpose of husbandry and includes; -
(a) horticulture, fruit growing and seed growing;
(b) dairy farming, bee keeping and breeding and keeping of livestock;
(c) conservation and keeping of game animals, game birds, protected animals and all aquatic animals;
d) breeding, game ranching, game cropping and other wildlife utilization;
(e) the use of land as grazing, meadow land, market gardens or nursery grounds; and
(f) the use of land for woodlands and other forms of agroforestry.

"Bancassurance" means an intermediary business that involves collaboration between a bank, a microfinance bank or a financial institution, and an insurance company to market and distribute

insurance products;

“Big Data” refers to massive, complex, structured and unstructured data sets that are rapidly generated and transmitted from a wide variety of sources.

“Business to Business” refers to transactions between businesses.

“Business to Consumer” refers to business transactions and relationships between businesses (companies) and consumers.

“Business to Government” refers to business transactions and relationships between businesses (companies) and governments.

“Compulsory Insurance” means any type of insurance coverage that is required by law before individuals or business may engage in certain activities.

“Financial Institution” means a company, other than a bank, which carries on, or proposes to carry on, financial business and includes any other company which the Minister may, by notice in the Gazette, declare to be a financial institution for the purposes of the Banking Act.

“General Insurance Business” means insurance business of any class or classes not being long term insurance business.

"Insur Tech" means the use of technology innovations designed to squeeze out savings and efficiency from the current insurance industry model.

"Insurance Agent" means a person, not being a salaried employee of an insurer who in consideration of a commission, solicits or procures insurance business for an insurer or broker;

"Insurance Broker" means an intermediary concerned with the placing of insurance business with an insurer or reinsurer for or in expectation of payment by way of brokerage, commission for or on behalf of an insurer, policy holder or proposer for insurance or reinsurance and includes a health management organization; but does not include a person who canvasses and secures reinsurance business from or to an insurer or broker in Kenya so long as that person does not undertake direct insurance business and does not have a place of business, or a resident representative, in Kenya.

"Insurance Business" means the business of undertaking liability by way of insurance (including reinsurance) in respect of any loss of life and personal injury and any loss or damage, including liability to pay damage or compensation, contingent upon the happening of a specified event, and includes-

(a) the effecting and carrying out by a person not carrying on a banking business, of contracts for fidelity bonds, performance bonds, administration bonds, bail bonds or customs bonds or similar contracts of guarantee, being contracts effected by way of business (and not merely incidental to some other business carried out by the person affecting them) in return for the payment of one or more premiums;

(b) the effecting and carrying out, by a body (not being a body carrying on a banking business) that carries on which is insurance business apart from this paragraph, of capital redemption contracts;

(c) the effecting and carrying out of contracts to pay annuities on human life,

(d) takaful insurance business based on group participation guaranteeing each of the members against defined loss or damage;

(e) micro-insurance business; and

(f) social insurance schemes.

“Insurance consumers” means any person who receives the benefits or risk cover from an insurance policy.

“Life Insurance” means a contract between an insured (insurance policy holder) and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money (the “benefit”) in exchange for a premium, upon the death of the insured person.

“Long Term Business” means insurance business of all or any of the following classes: life assurance; annuities; pensions (personal pension or deposit administration); group life; group credit; permanent health; investment (unit link and linked investments or non-linked investments).

“Loss Adjuster” means a person who do the business of assessing, investigating, negotiating, and settling losses, on behalf of the insurer or the assured.

“Loss Assessors” means a person who do the business of assessing, investigating, negotiating, and settling losses, on behalf of the insurer or the assured.

“Reg Tech” means the management of regulatory processes within the financial industry through technology. The main functions of RegTech include regulatory monitoring, reporting, and compliance.

“Reinsurance” means the business of undertaking liability to pay money to insurers or reinsurers in respect of contractual liabilities in respect of insurance business incurred by insurers or reinsurer and includes a retrocession.

“Sup Tech” means the use of innovative technology such as artificial intelligence and machine learning by supervisory agencies to support supervision. In other words, it’s the technologies for the regulators themselves.

“Third Party Insurance” means any insurance policy purchased for protection against the actions of another party.

FOREWORD

The insurance industry is central to the realization of financial services goals as set out in the Vision 2030. The Vision recognizes that as the economy develops and disposable incomes rise, there will be growth in insurable assets hereby generating demand for insurance services.

The industry plays an important role within the national economy through risk management and facilitating mobilization of savings for sustainable economic development. The true significance of the insurance sector lies in the fact that it enables the economy to operate efficiently and effectively. Without a reliable mechanism for risk mitigation, most of the economic activities would be exposed. A safe and stable insurance industry is vital for development and promotes confidence in the country's financial system.

The National Insurance Policy envisions a vibrant and sound insurance sector contributing significantly to financial stability and economic growth. To achieve this objective, the Government endeavours to create an enabling environment for the development of an inclusive insurance industry offering affordable products and services. This entails development of a comprehensive framework for promoting insurance as a risk mitigation tool to enhance economic growth. The Government is cognizant of the key role played by the private sector in the insurance industry. Towards this end, an enabling business environment will be created to drive more private sector participation in the insurance industry.

The performance of the insurance industry in recent years has deteriorated significantly. The level of underwriting losses for 2019 was the worst experienced by the general insurance sector for the last 20 years at KES 3.27 billion despite having written a premium of KES 132 billion in the same year. Most of these losses have come from the motor classes of general insurance business where underwriting losses increased in 2019 by 92.4% to KES 7.35 billion, with private motor insurance returning underwriting losses for the eighth year running. The total motor insurance premium was KES 46 billion. This level of underwriting losses cannot continue if the insurance industry is going to a sustainable risk management tool in Kenya.

The National Insurance Policy aims at addressing challenges that continue to hinder the development of the industry. These include; low level of public awareness on insurance products and services; low penetration rate and coverage; concentration of insurance in main urban areas; slow adoption of technology by the industry; low contribution of life insurance in the overall insurance industry business; limited underwriting capacity of the insurance industry; gaps in the legal and regulatory framework; relatively poor financial performance by most of the general insurance companies and poor perception about the insurance industry.

A conducive environment is required for effective participation of all stakeholders in addressing challenges affecting the insurance industry as well as tapping existing and potential capabilities in order to accelerate the development of the industry. The aim of this policy therefore, is to create a conducive environment that will attract more investments in the insurance industry and promote greater participation of the public and private sectors.

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CABINET SECRETARY/THE NATIONAL TREASURY AND PLANNING

ACKNOWLEDGEMENTS

The overall purpose of this policy is to guide the Government to create a vibrant and competitive financial sector through development of a fair, safe, competitive and stable insurance industry. As you all know, Kenya's Economic blue print "Vision 2030" aims at creating a robust, inclusive, efficient, stable and globally competitive financial services sector that promotes mobilization of savings to finance long-term development. One of the strategies to achieve this is the modernization of the insurance industry through among other things, the development of a comprehensive National Insurance Policy (NIP).

The National Treasury would like to thank and acknowledge the Technical Committee for the development of the National Insurance Policy for the dedicated team work and continued support to the consultant in the process of developing this Policy. The Secretariat and the Inter agency Technical Committee worked together with the Consultant at intermittent times over the last 14 months to develop this comprehensive policy.

In addition, I appreciate the effort of the staff at IRA who were always available to support the consultant and throughout the process of developing the Policy. They were also major contributors to the engagement and development of the ideas and content for this report.

I also appreciate the contributions from insurance companies, Association of Kenya Insurers, Association of Insurance Brokers of Kenya and agents for their responses to questionnaires, interviews with the consultant and attending and contributing at various stakeholder workshops.

I note with thanks the effort of the Technical Committee on the Development of a National Insurance Policy for ensuring the smooth development of this policy and their technical input.

The Government is confident that this document will facilitate the creation of a fair, safe, competitive and stable insurance industry thereby contributing to the growth of the financial services sector.

JULIUS MUIA, PhD, CBS
PRINCIPAL SECRETARY/THE NATIONAL TREASURY

EXECUTIVE SUMMARY

This policy is designed to promote the growth and development of the insurance industry by addressing issues of inclusion, access, affordability, and consumer protection. It is anchored on the national values and principles of governance as set out in the Constitution of Kenya 2010.

The objective of this policy is to promote a vibrant and competitive financial sector through the development of a fair, safe, competitive and stable insurance industry. This will be achieved by strengthening the legal and regulatory environment; promotion of insurance as a risk management tool; enhancing access of customer centric insurance products; mobilizing financial resources for development; increasing insurance penetration; and ensuring broader financial inclusion and access.

The situational analysis identifies various gaps and challenges that the insurance industry faces today. These include limited access to insurance, low levels of insurance awareness and financial literacy, poor public perception and lack of trust in the industry, poor management of policies and claims processes, limited products, fraud, low usage of technology, limited distribution channels, unethical business practices, weak self-regulation, weak enforcement of the law, limited data sharing, lack of sustainability of insurance for public service vehicles, conflicting legislation and policy across government ministries and regulatory bodies, lack of good governance, inadequate skills, and concentration and systemic risks.

Like many insurance industries in the region, Kenya's insurance industry is a fragmented one, a trait which is most clearly seen in the general insurance business, where none of the nation's "big five" firms claim a market share of more than 10%. Despite this fragmentation the insurance market in Kenya is considered as one of the more mature insurance markets in the African continent.

Emerging risks that have the potential of changing the insurance market include extreme events, cyber-crime, pandemics, changes in policy such as the Big Four Agenda, terrorism and political risks, money laundering and terrorism financing, Universal Health Coverage, changing demographics, and regional and international collaboration.

The policy shall address the gaps, challenges and emerging risks identified by strengthening the existing legal and regulatory framework geared towards increasing penetration and coverage; creating an enabling environment to support development of new insurance products and distribution channels; promoting ethical and professional conduct in the industry; enhancing consumer protection mechanisms; promoting adoption of technology and innovation; and establishing mechanisms to encourage insurance coverage in specialized and emerging risks.

1.0 INTRODUCTION

1.1 Background

The development of insurance in Kenya is closely related to the colonial history of Kenya (Throup, 1988). The colonialists initiated various economic activities and invested largely in farming and extraction of agricultural products (Huxley, 1990). These investments required some form of protection against various risk exposures giving rise to demand for insurance hence the establishment of insurance agencies in Kenya. As the British colonialists in Kenya prospered, the need for insurance services grew and the insurance agencies were transformed into branch networks with more expertise and autonomy to underwrite some risks (Tsoukatos et al., 2004). At the time, all insurance entities in Kenya were branch offices of foreign owned insurance companies from Britain and India.

After independence in 1963, most of the branch offices had been upgraded to fully fledged insurance companies (Maxon, 1993). At that time, the insurance industry was governed by the Companies Act 1960, which was based on the United Kingdom legislation and there was no competent body to supervise the industry.

The growth of the insurance business in Kenya led to the need for supervision of the industry. The government of Kenya with assistance from the United Nations Conference on Trade and Development (UNCTAD) developed legislation for supervision of insurance business in the country. This led to the promulgation of the Insurance Ordinance 1960. Two policies were developed in 1972 and 1994. The first policy recognized the role of insurance and reinsurance in economic growth while the second policy facilitated domestication of reinsurance business so as to reduce dependence on international insurers and reinsurers (Goko, 2012).

In 1980, and with the support of UNCTAD, the Government commenced the process of developing the laws to regulate the insurance industry. The Insurance Act, CAP 487 Laws of Kenya was enacted in 1984 and became operational in January 1987. The Insurance Act provided for the establishment of the Office of the Commissioner of Insurance as a department under the Ministry of Finance and the requirements for registration of insurance and reinsurance companies and other players in the field such insurance brokers, insurance agents and other insurance service providers. The office of the Commissioner of Insurance was mandated to supervise the insurance industry in Kenya.

To enhance effectiveness in supervision of the industry, the government delinked the office of the Commissioner of Insurance from the Ministry of Finance and gave it some autonomy in 2006. The Insurance (Amendment) Act of 2006 established the Insurance Regulatory Authority (IRA) as a semi-autonomous agency with the mandate of supervising, regulating and promoting the development of the insurance industry in Kenya.

1.2 Rationale for developing a National Insurance Policy

Insurance is a key driver for economic growth and transformation and national development as it supports entrepreneurship and encourages investment through provision of insurance services. It also offers social protection thereby easing pressure on public sector finance, enhancing financial intermediation, creating liquidity and mobilizing savings.

Insurance is one of the key pillars of the financial services sector, and is central to the realization of Vision 2030 goals, Medium Term Plan III, Big Four Agenda, and other Government development initiatives that are in line with Sustainable Development Goals. As the economy expands and disposable incomes rise, insurable assets grow thereby generating demand for insurance services.

A well-functioning insurance sector plays a crucial role in economic development not just at a macroeconomic level but also in terms of the activities of individuals and businesses. Given the importance of the insurance industry, it's potential for growth, rapidly emerging trends in insurance services locally, regionally and internationally, it is essential to clearly understand the challenges and opportunities that arise in order to have a clear road map for developing the insurance industry.

Kenya has generally experienced low levels of insurance penetration over the recent past at 2.34% (IRA Annual Insurance Report 2019) compared to other markets in the wider African continent such as South Africa (14.3%) and Morocco (3.83%). The global average insurance penetration rate is 7.23% (Swiss Re Sigma No. 4 2020). The penetration rate has been gradually declining in the last 5 years with a vast population of low income as well as micro and small businesses generally not covered.

According to the Insurance Sector Diagnostic Study (2018), there are various reasons for the low level of insurance penetration. These include low levels of insurance awareness, large underserved population, intense competition, gaps in data and skills, and limited innovation and adoption of technology. Other factors include intense competition for existing business, price wars, limited adoption of innovation and technology, and a focus on short-term returns generated from corporate and high net-worth individual clients with a large population remaining excluded. Further, business models remain skewed towards compulsory lines of business which has a tendency to distort development of the insurance market with implications on the long-term sustainability of insurance business.

Analysis of figures for real growth rate and insurance density, that is premium per capita, indicate the potential for substantial growth of the insurance industry in Kenya. To enhance the performance of the economy, improve confidence in the overall financial system and address issues of inclusion, access, affordability, consumer protection and usage of insurance services, there is need for a National Insurance Policy. This policy therefore seeks to make Kenya the leading insurance market in Africa that is efficient and financially sustainable providing appropriate and affordable risk management solutions to a majority of Kenyans.

1.3 Objectives and Scope of the Policy

1.3.1 Broad Objective

To create a vibrant and competitive financial sector through development of a fair, safe, customer centric competitive and stable insurance industry.

1.3.2 Specific objectives

The specific objectives of the policy are:

i). To strengthen the policy, legal and regulatory environment;

ii). To enhance access of customer centric insurance products and services;

iii). To mobilize financial resources for long term development;

iv). To ensure broader financial inclusion and access; and

v). To promote public confidence through provision, servicing of insurance products and services and prompt settlement of claims.

1.3.3 Scope of the Policy

The policy covers the landscape of the insurance industry, market trends, challenges, prospects and emerging developments. In assessing the landscape of insurance services, the policy covers the potential impact of operations of insurance business on the activities of policyholders and the economy as a whole, the impact of emerging trends in the insurance market, the need to overcome supply-side and demand-side constraints, the need to raise public awareness about the benefits of insurance coverage, the need to build human capacity and how to take advantage of changes occurring in the environment generally.

1.4 Guiding Principles

This policy is guided by the national values and principles of governance contained in Article 10 of the Constitution:

i). Patriotism, national unity, sharing and devolution of power, the rule of law, democracy and participation of the people;

ii). Human dignity, equity, social justice, inclusiveness, equality, human rights, non-discrimination and protection of the marginalized;

iii). Good governance, integrity, transparency and accountability;

iv). Sustainable development.

1.5 Policy Development Process

The National Treasury (TNT) in its quest to develop a National Insurance Policy prepared a concept paper and engaged a consultant who worked with an inter-agency technical committee appointed by TNT. The Inter-Agency Technical Committee (I-ATC) consisted of representatives from TNT, Office of the Attorney General and Department of Justice (OAG&DOJ), Ministry of Health (MOH), Ministry of Agriculture, Livestock, Fisheries and Cooperatives (MOALF&C), Central Bank of Kenya (CBK), Retirement Benefits Authority (RBA), Capital Markets Authority (CMA), Competition Authority of Kenya (CAK), Association of Kenya Insurers (AKI) and Association of Insurance Brokers of Kenya (AIBK).

Desk top reviews and one-on-one interviews with various key stakeholders were conducted which culminated into preparation on an inception report. The report included a work plan, an understanding of the assignment and the methodology to be applied.

Questionnaires were prepared and submitted to key industry players in relation to key issues in the insurance industry. Memoranda were also sought from them in addition to one-on-one interviews. A one-day stakeholder's forum was held where more views were collected. All these informed the development of the Situational and Gap Analysis Report which identified existing gaps and challenges, areas of improvement and prospects for growth.

A draft National Insurance Policy was prepared and subjected to Stakeholder's engagement for their comments which further enriched the document. There were identified consequential amendments to the Insurance Act CAP 487 and related laws which were captured in the Insurance Amendment Bill.

2.0 SITUATIONAL ANALYSIS

2.1 Current Insurance Environment

The insurance market in Kenya consists of insurance companies, reinsurance companies, intermediaries, insurance service providers, industry associations, and learning institutions. IRA is responsible for administering the Insurance Act and the overall oversight of the Kenyan insurance industry.

The table below indicates the trend of the number of licensed industry players:

Table 1: Licensed Insurance Industry Players in Kenya

S/No.	Licensed entity	2006	2010	2014	2019
1	Insurance Companies	44	47	50	56
2	Reinsurance Companies	2	2	3	5
3	Insurance Brokers	201	161	202	237
4	Medical Insurance Providers	21	24	29	35
5	Insurance Investigators	213[1]	115	133	144
6	Motor Assessors	-	28	108	138
7	Insurance Surveyors	30	26	24	33
8	Loss Adjusters	23	21	25	31
9	Claims Settling Agents	1	2	2	8
10	Risk Managers	8	10	8	11
11	Insurance Agents	2,665	3,931	5155	10,471

Source: *IRA Annual Reports*

The change in the number of insurance companies reflects mergers and acquisitions, demergers, and new entrants. The number of agents has significantly grown in the last five years owing to the regulator's effort to increase the agency sales force in each of the 47 counties through training. The desired outcome from this initiative, amongst others, has been to enhance insurance access in the country.

The following table indicates the trend of performance metrics for the industry:

[1] This number combines insurance investigators and motor assessors.

Table 2: Insurance Industry Performance metrics

No.	Item	Years			
		2006	2010	2015	2019
		Kes'000	Kes'000	Kes'000	Kes'000
1	Gross Premium Income	41,475,358	76,908,988	174,064,645	229,499,179
2	Investments	11,227,800	23,363,307	390,225,346	594,028,115
3	Assets	124,737,706	223,490,783	478,752,455	709,045,429
4	Shareholder's funds	34,574,575	58,648,780	125,830,028	161,635,278
5	Insurance Penetration (%)	2.56	2.99	2.75	2.34
6	Insurance Coverage (lives /population) (%)	-	-	9.9	24.5

Source: IRA annual reports

The insurance industry in Kenya is highly fragmented with six non-life insurance companies accounting for 40% of the total industry premium and the market leader controlling 8% market share in 2019. In the life segment, seven life insurers controlled 75% of the market with the other nineteen players sharing 25% of the premium. Consequently, most players use price-based competition as their main strategy acquire market share.

The non-life insurance segment drives the industry premium and accounted for 56.7% of the total gross premium written in 2019. The motor and medical insurance classes dominate this business segment accounting for 35.6% and 32.4% of the gross direct premiums respectively.

The life business segment has experienced steady growth in gross direct premiums over the last five years (from KES 62 billion in 2015 to KES 97 billion in 2019. The pensions class of business contributed the largest share at 38.7% (IRA Annual Report, 2019).

The insurance market is mainly driven by intermediaries[2]. The business acquired through insurance agents and brokers forms 85.8% of the total gross premium. In 2019, agents contributed 52.6% of the industry premium, brokers contributed 33.2% of the industry premium, and direct business contributed 14.1% of the industry premium.

These traditional distribution channels are an expensive way for insurance companies to gain new business as the business acquired requires commissions and related management expenses to be

[2] This refers to insurance agents, bancassurance agents and insurance brokers

paid. Direct selling does not pay commissions but has overhead costs such as branch operating expenses that may prove expensive. Therefore, there is need for the adoption of innovative and transformative approaches. The applicability of innovative distribution channels will depend on consumers' needs. Nevertheless, agents and brokers will remain crucial and irreplaceable as traditional distribution channels will still be more suitable for complicated policies with long insurance periods and large face amounts. As a result, the requirements for well-trained agents and brokers will consequentially be much higher.

There is low adoption of technology in the insurance industry. Technology presents an opportunity for insurance companies to leverage to increase their sales and build their bottom lines. There is potential to develop new products, set up alternative distribution channels, and align the industry with international standards. These will increase insurance penetration and insurance coverage over the long term.

2.2 Insurance Market in the Region

The Kenyan insurance market is the largest in East Africa, with a penetration rate of 2.34% (IRA Kenya, Annual Report, 2019), followed by Uganda at 0.78% (IRA Uganda, Insurance Market Report, 2019), and Tanzania at 0.53% (Annual Insurance Market Performance Report 2018 - TIRA). In the African insurance market, it is the third largest, in terms of premium, after South Africa and Morocco (Swiss-Re Sigma, 2019).

The EAC integration agenda has supported the regional insurance market in various ways including:

i. Financial inclusion and strengthening market participants;

ii. Harmonization of financial laws and regulations;

iii. Mutual recognition of insurance supervisors;

iv. Integration of financial market infrastructures; and

v. Capacity building at the EAC.

2.3 Comparative Analysis

A comparative analysis with other jurisdictions including Brazil, Spain, South Africa, Zimbabwe, India, and Malaysia was done. The analysis showed that these countries had, or still have, gaps and challenges like Kenya, albeit to a differing extent.

The analysis from the six jurisdictions identified gaps in the following aspects: distribution channels, range of products, access to insurance, limited capacity and skills for specialist insurance roles, and technology.

Some of the policy and legislative interventions adopted in the other jurisdictions that have led to the growth of the insurance industry in those jurisdictions include:

i. regulations that enable local insurers to participate in major infrastructure development projects;

ii. government involvement in provision of conducive regulatory environment;

iii. adoption of technology to increase insurance access and coverage;

iv. enhanced distribution models including bancassurance;

v. tax incentives for insurance companies and other participants;

vi. subsidies on premiums in key sectors for example, agriculture;

vii. private sector participation which promotes capital investment, technical skills (capacity development) and range of products in the insurance market – for example sharia compliant products and Microinsurance;

viii. promoting financial inclusion through products such as micro-insurance and sharia compliant products combined with the enhancement of consumer protection legislation and practises;

ix. enhance sound financial and risk management in insurance market;

x. removing restrictions on foreign investment in the insurance industry;

xi. the establishment of the office of insurance ombudsman; and

xii. the introduction and implementation of a shared data ecosystem;

2.4 Gaps and Challenges

The insurance industry operates in a dynamic environment characterised by advancement of technology, demographics, changing consumer preferences and regulatory landscape. The challenge for the insurance industry, and for IRA, is how insurance should adapt to meet the demands and challenges of today, and change the current, generally negative, perception of the industry Existing lines of business are under increasing market pressure because of the market dynamism. Further, globalisation and convergence across sectors through cross-selling and product innovation has fundamentally exacerbated the situation. These changes have put a spotlight on the existing gaps and challenges that cripple the growth of the insurance industry. Table 3 shows the gaps and challenges identified through stakeholder engagement, desktop review and comparative analysis of the insurance industry.

Table 3: Gaps and Challenges in the Kenyan Insurance Industry

Gaps/Challenges	Description of the challenge
i). Access to insurance	The traditional insurance model in Kenya has typically concentrated on urban areas in addition to focusing on the formally employed segment of the population. The rural and informally employed population has as a result remained underserved.
ii). Levels of insurance awareness and financial literacy	Levels of insurance awareness stand at 44% (Insurance Awareness Survey, March 2017 by AKI). Urban residents have higher awareness levels compared to their rural counterparts. Most Kenyans have little or no understanding of insurance resulting in low uptake of insurance products.
iii). Conduct of business	Information asymmetry, constraints on consumer choice, and unequal bargaining power between insurers and consumers expose consumers to vulnerabilities such as mis-selling and other business malpractices. Other issues identified include: i. price-based competition; ii. problems associated with the distribution and sale of insurance products; iii. lack of public confidence in the insurance industry; iv. lack of access to insurance products that meet consumer needs; v. unethical business practices.
iv). Safety and stability of insurance industry	The insurance industry in Kenya is highly fragmented with six non-life insurance companies accounting for 40% of the premium and the market leader controlling 8% market share in 2019. In the life segment, seven life insurers controlled 75% of the market with the other nineteen players sharing 25% of the premium. As a result, the market is highly competitive, giving rise to price-based competition. Other issues include poor asset-liability matching that can have detrimental effects as insurers may fail to meet their obligations. The

	issues above among others threaten the stability of the insurance industry.
v). Public perception of insurance and lack of trust	Several factors have contributed to the public's lack of trust and negative perception of the insurance industry. These include; i. delay in settlement of claims, ii. information asymmetry, iii. low levels of insurance awareness, iv. unethical business practices, and v. negative customer experience at the point of claim settlement.
vi). Insurance policy management and claims processes	Insurance is a highly technical business hence bringing forth information asymmetry challenges. Policy documents contain technical terms that may not be easily understood. The Authority has made strides towards simplification of the policy documents. There is a need for further simplification of the policy documents and public education and awareness creation. Over 70% of complaints by consumers of insurance services concern delayed settlement of claims. The statutory period for claims payment is 90 days. Other markets have a period of 30 days on average. The 90 days period is quite long compared to the 30 day period.. The major factors contributing to delay in settlement of claims include inefficient claims process, lack of experts to perform loss adjustments for specialized areas (for example crop cutters and calculating agents in the agricultural sector), undercapitalized insurers, and insurers with low liquidity.
vii). Products to cover all risks in the market	The insurance industry has continued to rely on traditional insurance products that do not adequately meet changing customer needs. A better understanding of consumer behaviour and needs can help insurers understand which products work for specific consumer or market segments. There is a need to develop more innovative products beyond the traditional insurance products. Actuaries need to keep up with fast-moving datasets to allow for more accurate pricing. The aim should be simple, safe, and better value products.

viii). Fraud and reputation risk	The insurance industry has experienced fraudulent claims due to weaknesses in internal controls. However, most of the cases remain unreported due to reputational risk. The failure to report limits the build-up of data on fraud.
ix). Social insurance	There is limited government participation in provision of social insurance to underserved and excluded segments of the population. This leaves these segments of the population exposed to risks.
x). Adoption of technology by insurance industry players	Insurance industry players have been slow in the adoption of technology in their business processes. In addition, the cost of acquiring insurance business remains high compared to other markets that leverage technology to distribute insurance. Low adoption of technology has limited the opportunity to get new business and make the operations of the industry more efficient. Opportunities exist for InsureTech, RegTech, and SupTech among incubators, accelerators, mobile network operators (MNO), technology firms, and corporates.
xi). Distribution channels	The distribution of insurance in Kenya is intermediary driven. Brokers and agents (including bancassurance) contributed over 85% of the total business underwritten in 2019. The current channels are concentrated in the urban areas and have not been effective in reaching the largely underserved markets. There are emerging trends and new opportunities that leverage on innovation and technology to distribute insurance hence the need for continued diversification of distribution channels with agents and brokers still playing important roles.
xii). Data sharing	There is no well-coordinated data generation and sharing mechanism in the insurance industry and therefore accessing relevant insurance data remains a challenge. The lack of data generation and sharing mechanism limits the ability to accurately price products, share information (weather data, claims and fraud), and make informed decisions.
xiii). Sustainability of insurance for public service vehicles	Insurance of public service vehicles, boda bodas and tuk-tuks is faced with challenges ranging from fraudulent claims, indiscipline and chaos to excessive court awards. This has made several insurers to shy away from offering cover to public service vehicles, boda bodas and tuk-tuks. In the last twenty (20) years, ten (10) insurance companies have been placed under statutory management. All the companies were major

	underwriters of public service vehicles, including the government-owned Kenya National Assurance Company (KNAC) Limited.
xiv). Legislation, policy and coordination across governments and regulatory bodies	The Government has entered several local, regional, and international alliances and partnerships. These include the Joint Financial Sector Regulators Forum, East Africa Community, East Africa Insurance Supervisors Association, the standard-setting bodies, and COMESA Yellow card Scheme. However, there is limited coordination and harmonization of the legal and regulatory frameworks across these partnerships.
xv). Public Private Partnerships	The government is better placed to support introduction of risk management solutions for people in the rural and remote areas who have been excluded by private insurance companies. It has been established that the success of agricultural, livestock and social insurance requires government subsidies. The responsibility of offering risk management solutions to cushion against the effects of disasters should however be shared amongst all the concerned stakeholders including national government, county governments and the private sector. Even though the Government has put efforts in the PPP arrangements on insurance matters among them agricultural insurance, disaster risk financing, there are limited government-private partnerships in support of the insurance industry. There is a need for PPP in data exchange, management, and reporting systems. PPP are crucial in fostering the development of the insurance industry. They can help overcome supply and demand-side inefficiencies, improve services and give better value for money.
xvi). Research and Development	R&D in the Kenyan insurance industry is limited as evidenced by over-reliance on traditional insurance products, availability of products that do not meet consumer needs, and copy-paste of insurance products by insurance companies. Recent research reports have been completed by the Association of Kenyan Insurers on general topics , there is a need for more technical research to be completed which may be completed with new stakeholders such as the universities who are offering actuarial courses and the College of Insurance.

2.5 Emerging Issues

Emerging issues have the potential of impacting the local insurance market. They include extreme events, cyber-crime, policy changes such as the Big four agenda, and any other occurrence outside conventional insurance. Extreme events are events that are less likely to occur. When they occur, the impact is extensive. Challenges emanating from emerging issues include ineffective covers, inefficient distribution, and delivery of insurance services. (World Bank 2019). Governments in partnership with the insurance industry can play a significant role in addressing emerging issues.

2.5.1 Pandemics

A pandemic is an epidemic occurring worldwide, or over a very wide area, crossing international boundaries and usually affecting a large number of people. The COVID-19 pandemic has amplified the need keep the financial system functioning and people safe during this time of social distancing. With falling demand for goods and services, reduced input supply, tightening of credit conditions and rising uncertainty, the pandemic has impacted all stakeholders in the insurance market. While the impact is currently weighted towards customers and insurance companies, it is expected that the impact will cut across other areas of the economy including: -

i). The distress to the government and public, arising from the business interruption with risks remaining largely not covered by insurers.

ii). A global economic recession, which is becoming increasingly likely, might affect insurers in several ways, for example, lower demand for insurance products and lower returns from investments.

iii). Increase in insurance claims from death, hospitalization, events cancellation, and business interruption cover, among other eventualities.

iv). Delays in claims submission because of restrictions on movement and exclusion of pandemic events from insurance contracts.

A global outlook survey by Deloitte's Centre for Financial Services found that many insurers know they still have their work cut out for them, even after spending most of 2020 adapting to the outbreak's impact. Forty-eight percent of 200 responding insurance executives agreed the pandemic "showed how unprepared our business was to weather this economic storm," while only 25% strongly agreed their carrier had “a clear vision and action plan to maintain operational and financial resilience” during the crisis.

The pandemic has highlighted how ineffective many of the insurance industry’s members risk management strategies were. Whether it is something similar to Covid 19, or another type of catastrophe we know that the insurance industry needs to implement better and longer focused risk management strategies.

2.5.2 Climate Change

The Insurance industry holds economic assets and liabilities on their balance sheets that are likely to have exposure to both risks and opportunities linked to a changing climate. As risk managers, insurers and investors, the insurance industry can play a leadership role in driving positive impact, both in terms of climate change mitigation and adaptation. Climate change presents not only downside risks, but also upside opportunities for the industry to create new insurance products and services. The insurance industry can also leverage innovation in risk analysis, risk reduction, and product design to enhance climate-related risk assessments and disclosures.

Kenya is prone to various risks and disasters ranging from floods, drought, disease, and pests’ infestation and these have significantly affected the livelihoods and economic development of the country. These disasters often occur because of extreme climatic events and result in economic costs.

Kenya has put in place several disaster risk management initiatives in collaboration with development partners. These include the development of a Disaster Risk Management Policy and legislation and a Disaster Risk Financing Strategy aimed at providing the national guiding framework for disaster risk management. Some of these include; Contingency fund, County-level emergency funds, Kenya Livestock Insurance Program (KLIP), Hunger Safety Net Program (HSNP), Catastrophe Deferred Draw-Down Option (Cat-DDO), National Drought Emergency Fund (NDEF), Kenya Agricultural Insurance and Risk Management programme (KAIRMP).

There are efforts to develop climate financing instruments such as green bonds and other financing instruments alongside promoting good climate change practices through advocacy campaigns, partnerships, resource mobilization, and technical support.

Insurance can and should help vulnerable populations to manage climate risk, educate them about the benefits and limitations of insurance, and encourage an enabling regulatory environment to create more efficient distribution channels. Collecting and sharing reliable data is also key.

2.5.3 Terrorism and Political Risks

The impact of terrorism and political violence can be devastating as a result of losses arising from damage to tangible assets and business interruption. They create market uncertainty, loss of lives, and destruction of property, and increased insurance claims.

The insurance industry has a critical role to play to enhance capacity for underwriting, pricing, claims, and reinsurance for terrorism and political risks. The government also needs to deploy appropriate policy responses to mitigate the effects of political violence and terrorism and to provide compensation to victims of terrorism and political violence.

2.5.4 Money Laundering and Financing of Terrorism

Money laundering and financing of terrorism often display similar transactional features, mostly having to do with concealment of either the source or use of funds, or both of them. Financing of terrorism sometimes has features of money laundering, the major difference being the use of legal funds being used for illegal purposes.

Life insurance, non-life insurance and reinsurance can be used to launder money and/or finance terrorist activities. The vulnerability of the insurance industry arises from factors such as the complexity and terms of the contract, distribution channels and payment system. Though both life and non-life insurance can be used for money laundering, life insurance is perceived to be more attractive to money launderers.

2.5.5 Universal Health Coverage

Universal health coverage aims at increasing access to quality health services with the grand objective of ensuring positive health outcomes in the entire population without suffering financial hardship. To achieve its objective, the program requires a financing mechanism that facilitates population coverage while ensuring that resources are channelled towards health gains.

Approximately 26% of the Kenyan population have health insurance through the National Hospital Insurance Fund (FinAccess Survey 2019). Consequently, most of the underserved populations cannot afford out of pocket payments for health services in the absence of appropriate medical insurance covers.

There is a need for the government and the insurance industry to develop strategies to ensure universal health coverage is in place to reduce large out-of-pocket expenditure on health and ensure that all citizens have access to affordable and reliable healthcare. There is also a need for a regulatory framework that supports insurance health coverage.

2.5.6 Changing Demographics

Change in demographics of the target market affects the scope of products offered by the insurance companies, communication & distribution channels, and pricing of the insurance products. The impact of changing demographics depends on a variety of contextual elements: institutions, availability of natural resources, capacity to transform the productive potential of additional people into actual production. Higher life expectancy is expected to increase demand for retirement products; for example, annuities and post-retirement medical insurance.

According to the 2019 population and housing census, Kenya's population was 47,564,296, out of which 23,548,056 were males and 24,014,716 females (KNBS 2019). 75.1% of the total population is below 35 years. The population grew by 26.2% in the last ten years to 47.6 Million in 2019 from 37.7 Million in 2009. This growth presents an opportunity for the insurance industry to expand their business through technology to cater for the needs of the larger consumer market.

2.5.7 Regional and International Collaboration Frameworks

Kenya is a member of various trading blocs, associations, and integration initiatives regionally and internationally. They include the East Africa Community (EAC), Common Market for Eastern and Southern Africa (COMESA), East Africa Insurance Supervisor's Association (EAISA), Association of Africa Insurance Supervisory Authorities (AAISA), Africa Union (AU), United States of America Free Trade Area Agreement (US-FTA) and International Association of Insurance Supervisors (IAIS) among others. These integration initiatives and trading blocs have the impact of widening the insurance market for the Kenyan insurance industry players who need to develop strategies to maximize the opportunity.

2.5.8 Advances in Technology and Innovation

Technology and innovation are crucial in developing the insurance industry by increasing access to insurance and reducing costs. The recent explosion of internet connections, home computing, mobile devices, development of applications, Big Data, Cloud Computing, Artificial Intelligence, BlockChain, and the Internet of Things lead to the possibility of accelerating innovations in the insurance industry.

The Kenyan insurance industry needs to achieve effective technology transfer and commercialization of ideas and technologies. While the younger population may be more willing to adapt to going virtual seamlessly, it's not so easy to get everyone on board—from long-term clients who are firmly in the brick-and-mortar camp to older insurance consumers who may want paper and aren't so thrilled by social media. The insurance industry needs to strike a balance, where the digitally-savvy audience will appreciate insurance without alienating its more traditional audiences.

The challenge for the Kenyan insurance industry is to radically reduce costs, while at the same time improve customer service and support new initiatives. Technology is the main weapon in meeting this challenge; yet, many insurers are burdened by an excess of antiquated core systems built in old technology

Leveraging on innovation and technology in the insurance industry will largely be powered by InsureTech, SupTech, and RegTech. This has the potential to lower costs by maximizing economies of scale, increasing the speed of service delivery, security, and transparency of data and information, and to allow for more tailored insurance products and services that serve the excluded and underserved populations.

Technology has increased the data flow between consumers and insurers (and their representatives), enabling insurers to hold a lot of information about their customers. Insurers must therefore ensure customers feel confident their personal information is safe and will be used appropriately.

2.5.9 Social Insurance

Social insurance programs mitigate risks by providing income support in the event of illness, disability, work injury, maternity, unemployment, old age, and death. There is a need to widen the scope of social insurance to increase the coverage of largely excluded segments of the population. There are other areas where the government and or donors are covering insurance premiums in agriculture insurance and disaster risk. As the government implements its social protection policy, it becomes more important to develop a clear strategy on how the government will support vulnerable groups for essential social services.

2.5.10 Blue Economy

Modern-day insurance roots can be traced to the maritime industry, and the insurance industry's relationship with the blue economy continues to evolve.

Major industries such as shipping, fishing, aquaculture, coastal tourism, energy, biotechnology and nature-based solutions for coastal protection and blue carbon depend upon the health of the blue economy (ocean, lakes, and coastal resources). The blue economy however, is under immense pressure from unsustainable development, including destructive fishing practices, carbon-intensive shipping, acidification and pollution. The blue economy is increasingly attracting investors, insurers, banks, and policymakers as a new source of opportunity, resources, and prosperity. The rapid unsustainable growth can lead to environmental risks and losses in natural capital, eroding the ocean's resource base and creating regulatory, market and physical risks. Given the challenges and opportunities in the blue economy, the Government will need to contribute and assist with developing a enabling environment for the insurance industry to play a key role in ensuring a more sustainable blue economy for the future. For example, Kenya can put in place a *blue economy*- conducive fiscal and regulatory environment that would encourage investment in local ship building, repair and maintenance, attract registration of ships in the country and discourage export of maritime services such as insurance, this is part of how the enabling environment can be developed.

2.5.11 Oil and Gas

Oil and gas exploration in the country began in 1956 and the breakthrough came in March 2012 with the discovery of Ngamia 1 Well, in Lokichar Basin in Turkana County.

The petroleum sector in Kenya is organized into three sections: the upstream, mid-stream and downstream. The upstream section involves the process of exploration, development and production of crude oil and natural gas. The mid-stream section revolves around storage, refining and transportation of crude oil into consumable petroleum products whereas in the downstream section, refined products are made available to the consumers through supply and distribution, for example at petrol stations (www.energy.go.ke).

The Government of Kenya is cognizant of the risks and has made insurance of upstream petroleum operations mandatory under the Petroleum Act 2019. Further, the Petroleum Act 2019 requires contractors to give preference to Kenyan Insurance Companies under the Local content requirements.

The capital of domestic insurance companies in Kenya is inadequate to insure oil and gas related risks forcing international oil companies to rely on foreign insurance companies, leading to capital flight.

2.6 Review of the Legal, Regulatory and Institutional Framework

A robust legal, regulatory, and institutional framework is key to a well-functioning insurance industry. In this chapter, the policy reviews the existing legal, regulatory and institutional framework governing the insurance sector in Kenya with a view to identify gaps and areas of improvement.

2.6.1 Legal and Regulatory Framework

Insurance is a regulated business in Kenya and the principal law governing the insurance industry is the Insurance Act Cap 487 and the attendant regulations and schedules. Other relevant legislations include but not limited to; the Insurance Motor Vehicle Third Party Act Cap 405, Marine Insurance Act Cap 390, Work Injury Benefits Act, Traffic Act Cap 403, Stamp duty Act Cap 480, Public Procurement and Disposal Act 2015, National Transport and Safety Authority Act, Kenya Reinsurance Corporation Act Cap 487A, National Hospital Insurance Fund Act Cap 255, Data Protection Act, Civil Aviation Act, Proceeds of Crime and Ant-Money Laundering Act (POCAMLA), Public Service Superannuation Scheme Act, Retirement Benefits Act, National Construction Authority Act, and Insolvency Act.

IRA has gradually introduced risk-based supervision in the insurance industry over the last five years transiting from the previous rule based supervisory regime. The objective of the supervisory regime change is to foster stability in the insurance industry.

The current insurance law is very prescriptive with all areas of insurance detailed in the insurance law. Most international markets who have reviewed their insurance law in the last decade have developed an insurance law that is described as a framework and the market is managed and supervised through regulations. Regulations are more effective when a market is changing as much as the insurance industry is currently doing.

Supervision is all about outcomes and the objectives are to:

i. promote the maintenance of a fair, safe and stable insurance industry by making sure the right conditions exist for market players to conduct their business;
ii. protect the interest of the insurance policyholders and beneficiaries by basically focussing on the integrity of the insurance market, consumer protection and generally promoting competition in the interests of consumers; and
iii. Promote the development of the insurance industry through clarifying regulatory expectations, examining own rules or enacting policy changes, to give insurance industry players the space and impetus to innovate in the interest of consumers.

2.6.2 Institutional Framework

There are various players that are key to development and implementation of a national insurance policy these include:

Parliament

Parliament has a constitutional mandate pursuant to Articles 94 and 95 of the Constitution for effective representation, legislation and oversight and plays a key role in enacting the relevant legislation and statutes that govern and promote the insurance industry. It is expected to actualize Article 118 of the Constitution on public access and participation in parliamentary processes through engagement and involvement of the public in legislation and oversight.

The National Treasury and Planning

The National Treasury will provide an enabling environment for the growth and development of the insurance industry by giving policy direction through among other things facilitating the development of requisite legislative and legal framework for the insurance industry that promotes and facilitates overall socio-economic development. Further, it will be key to drafting and vetting of local and international instruments, treaties and agreements involving the Government and its Institutions for purposes of promoting the insurance industry.

Office of the Attorney General and Department of Justice

The Office of the Attorney General and Department of Justice is the principal legal advisor to the Government and will be charged with the responsibility of supporting the strengthening of legal and regulatory framework for the insurance industry through drafting legislation in addition to providing policy, coordination, and oversight on legal issues.

Government Ministries, Departments and Agencies

Government ministries, departments and agencies will play key roles in the insurance industry based on their respective mandates e.g., Ministry of Health on medical insurance, Ministry Agriculture, Crop and Livestock Insurance (crop, livestock and fisheries), Ministry of Environment and Natural Resources, Meteorological Department, Policyholder's Compensation Fund.

Governance, Justice, Law and Order Sector (GJLOS) institutions and stakeholders

These institutions will be expected to individually and collectively, contribute towards the achievement of insurance industry-wide priorities through enforcement of the relevant laws and regulations as per their respective mandates, improving access to justice especially to include the poor, marginalized and vulnerable as well as effective management and coordination of their activities as per mandate.

County Governments

County governments are key players in increasing penetration and coverage of insurance especially in the rural areas and will be expected to play a key role in supporting development of the insurance industry in Kenya as per functions assigned to counties by the fourth schedule of the Constitution of Kenya and any other related legislation.

Insurance Regulatory Authority

IRA administers the Insurance Act and is key in ensuring effective regulation, supervision and promotion of development and innovation in the insurance industry in order to protect insurance beneficiaries. Further, IRA be the advisor of Government on insurance matters and therefore key in realizing the outcomes set out in this policy

Insurance and Re Insurance Companies

These are the principal risk carriers expected to undertake liability by way of insurance and reinsurance in respect of any loss of life and personal injury and any loss or damage, including liability to pay damage or compensation, contingent upon the happening of a specified event. To include takaful (re-takaful) and micro-insurance business.

Insurance Intermediaries

These include insurance brokers and insurance agents who sell insurance. They are key in distributing insurance or making offers or proposals with a view to entering contracts of insurance with an insurer.

Insurance Service Providers

These include Insurance Investigators, Motor Assessors, Insurance Surveyors, Loss Adjusters, Claims Settling Agents, Risk Managers and Medical Insurance Providers. They offer specialized services to the insurance industry. Crop cutters and calculating agents to form part of this category.

Policyholders Compensation Fund

The Policyholders Compensation Fund (PCF) will provide compensation to policyholders of an insurer that has been put under statutory management. In addition, PCF shall have the secondary purpose of increasing the general public's confidence in the insurance industry.

Policyholders and the General Public

These include persons who shall be the legal holders of a policy for securing a contract with an insurance company. This to include insurance beneficiaries and the general public.

Financial Sector and other Regulators

Other regulators play key roles in the insurance industry based on their respective mandates such as Central Bank of Kenya (CBK), Capital Markets Authority (CMA), Retirement Benefits Authority (RBA), Sacco Societies Regulatory Authority (SASRA), Financial Reporting Centre (FRC), and Competition Authority of Kenya (CAK) among others.

Insurance Industry Associations

There are various insurance industry and related associations representing a mix of market players and provide their members with a range of services including support and training, as well as lobbying on their behalf.

Professional Associations

These are various professions in or auxiliary to the insurance industry and will be responsible for providing technical expertise required in the insurance industry. They will advance a particular profession, support the interests of people working in that profession and serve the public good. They are also expected to facilitate/promote capacity building, innovation and adherence to the code of conduct of their members in addition to furthering particular professions and the interests of individuals engaged in that profession and the public interest.

Training and Research Institutions

They offer capacity development, innovation, and knowledge management to the insurance industry. This includes the College of Insurance, Universities and other Colleges, Training and Research institutions.

Financial Institutions

These include;

i. Commercial banks,
ii. Micro Finance Banks

iii. Investment Banks,

iv. Stock brokerage firms

v. pension schemes,

vi. SACCOs.

Regional and International Associations/Institutions

They offer guidance and principles to be adhered to by members on matters of insurance supervision and include the International Association of Insurance Supervisors, East Africa Insurance Supervisors Association.

3.0 POLICY STATEMENTS

This chapter sets out the main policy directions by way of policy statements to address the gaps and challenges identified in the situational analysis with the aim of promoting a fair, safe, competitive, customer centric and stable insurance industry.

3.1 Legal and Regulatory Environment

The dynamic environment in which the insurance industry operates requires a robust and vibrant legal and regulatory framework to adapt to the new developments. Many of the changes in Kenya's insurance regulatory environment will impact the sector positively in the long run. Innovation and consolidation, coupled with global best practice in regulatory compliance, will make the sector more attractive to investors.

Policy statement: The government shall strengthen existing legal and regulatory framework geared towards increasing penetration and coverage as well as growing the industry through the following policy interventions:

i. Review of the legal and regulatory framework in line with emerging market developments
ii. Enhancing disclosure requirements
iii. Development of a framework for promotion of community-based organizations involved in risk management.
iv. Development of a framework for promotion of Kenya as an insurance hub in Africa, focused on how Kenya will take a leadership role in the region and how the Kenyan insurance industry .will become more attractive for long term investors.

3.2 Access and Uptake of Insurance

The insurance companies in Kenya have largely relied on traditional products and taking on relatively conservative risks for their insurance portfolios. Most companies currently lack the strategies and expertise to adapt their business models to customers or regions with little access to insurance. There is need for the government to play a proactive role in developing policy that supports the access and uptake of insurance.

Policy statement: The government shall create an enabling environment to promote access, affordability, and uptake of insurance through the following policy interventions:

i. Promote the development of appropriate insurance products and services
ii. Review the options for mandatory insurance including current third party motor insurance.
iii. Promotion and development of specialized insurance products and services
iv. Promotion of insurance distribution channels needed to develop with the insurance market
v. Promotion of access and coverage of insurance services
vi. Improvement of the customer engagement culture
vii. Promotion of appropriate incentives for growth and the development of insurance business.
viii. Promote the development of social and micro insurance.
ix. Promote the development of agriculture insurance.
x. Promote the development of takaful.

3.3 Insurance Market Conduct

Market conduct in the insurance industry describes the problems associated with the sale and distribution of insurance products and services. Market conduct has been a key insurance regulatory focus over the last decade internationally. In Kenya, market conduct has been addressed through various interventions including market conduct guidelines for intermediaries, market conduct guidelines for insurers and the treating customers fairly (TCF) framework. However, stakeholder feedback during the process of developing the National Insurance Policy indicated that improvement is needed in several aspects of market conduct.

The objective of market conduct regulation is to ensure that insurance customers receive fair treatment in dealing with insurers and other industry players. Any policy developed must ensure that disclosures are clear, meaningful and help consumers to understand insurance products.

Policy statement: The government shall promote a fair and competitive insurance industry through the following policy interventions:

i. Promotion of fair-trading practices and competition in the insurance industry.

ii. Promotion of the insurance industry to enhance the public's confidence in the industry
iii. Promote the development of technical capacity in specialized insurance areas
iv. Promotion of ethics and professionalism in the insurance industry
v. Promotion of fair treatment of insurance consumers
vi. Promotion of financial literacy, public education and awareness
vii. Enhancement of market conduct regulation and supervision
viii. Strengthening of policyholder compensation mechanisms

3.4 Safety and stability of the insurance industry

Insurance provides safety and security against specified uncertain events and occurrences. Insurance companies need to be financially stable and resilient to provide assurance that compensation will be provided in case of loss to the insured.

The insurance industry can be a source of vulnerability for the financial system. There is a great deal of interconnectedness in the financial system; the insurance industry, financial markets, banks, and other financial institutions.

Policy statement: The government shall continuously develop, monitor and implement prudential interventions to ensure safety and stability of the insurance industry and its overall resilience with a view to protect policyholders through the following policy interventions:

i. Enhancement of supervision and regulation of insurance business
ii. Development and implementation of macro prudential framework for management of risks
iii. Promotion of a risk management culture in the insurance industry
iv. Development and implementation of a framework for supervising systemically important insurers
v. Enhancement of supervision of insurance groups

vi. Development of mechanisms for efficient resolution and winding up of insurers and reinsurers

vii. Development and implementation of coordination mechanisms for cross border crisis management

3.5 Technology and Innovation

Technological trends are impacting the ways corporations do business the world over. Adoption of technology has increased the ease of doing business in addition to increasing efficiency and reducing cost of doing business.

Adoption of technology however comes with risks such as data risks and cyber risks. Therefore, there is need for a framework for monitoring these risks. It is recommended based on the experiences from other countries that the policy must focus on design digital-friendly rules to allow consumers to access information or services digitally if they wish and to benefit from the opportunities that digitalisation offers. Regulations should also make rules that are future-proof and innovation friendly, so they are fit for the digital age and allow insurers to respond to the evolving needs and expectations of consumers.

Policy statement: The government in collaboration with other stakeholders shall promote adoption of innovation and technology to spur the growth of insurance industry through the following interventions:

i). Promotion of adoption of technology.

ii). Promotion of mechanisms for insurance data management and sharing.

iii). Promotion of research, development and innovations in the insurance industry.

iv). Review of legislation to promote use of technology.

v). Promotion of partnerships and collaboration in technology and innovations in the insurance industry.

3.6 Insurance of Specialized and Emerging Risks

Emerging issues such as climate risk, aging populations, technological risks, cyber risks, financial inclusion and sustainable development pose risks and opportunities for the insurance industry. Insurers need to keep abreast of these emerging issues to take advantage of opportunities while addressing the needs of policyholders adequately.

Policy statement: The government shall establish mechanisms to encourage insurance coverage of specialized and emerging risks through the following policy interventions:

i). Development of capacity for the insurance industry to cover specialized and emerging risks.

ii). Establishment of mechanism for protection against exposure to extreme events.

iii). Development of a framework for insurance of public assets, projects and programmes.

4.0 LEGISLATIVE, INSTITUTIONAL AND FINANCIAL IMPLICATIONS

4.1 Legal Implications

The Insurance Act and the attendant laws will need to be amended to be in line with the policy interventions. Therefore, a consequential amendment bill which will propose amendments to the insurance act and other relevant acts will be developed in a consultative manner.

4.2 Institutional Implications

The interaction between different stakeholders may be affected by the proposed amendments and there may be need for realignment of institutional relations, roles and mandates. In addition, the implementation of this Policy will be undertaken by existing public institutions and will not require the establishment or fundamental realignment of the existing system of Organization of Government Business. The implementation of this Policy will involve a strong role for the National Treasury, IRA and the Office of the Attorney General and Department of Justice, other Government Ministries, Departments and Agencies and the County Governments.

4.3 Resource Implications

Although implementation of this policy will call for financial resource, it will not require drastic shifts in Government's overall budget framework. However, there will be need to provide for resources in the National Government budget in the relevant institutions with support from County Governments to implement the policy.

5.0 MONITORING, EVALUATION AND REVIEW OF THE POLICY

The monitoring and evaluation (M&E) of policy is a process by which stakeholders follow and assess policies to ensure they are developed, endorsed, enacted, and implemented as intended. Policy monitoring involves;

i). appraising the policy environment,

ii). gauging the level and quality of stakeholder engagement,

iii). documenting the progress of policy development and the legislative endorsement of policy,

iv). putting policies into practice through financing and implementation planning, and

v). Evaluating outcomes of implementation.

To achieve the desired policy objectives and outcomes, a monitoring and evaluation framework will be developed to evaluate the progress made in implementation of this policy. The National Treasury in collaboration with agencies implementing this policy will prepare annual monitoring and evaluation plans, monitor and evaluate implementation and prepare reports. The reports on the implementation progress will be shared with all stakeholders.

This policy will be reviewed after a period of five years or any other such period as shall be determined by the ministry responsible.

ANNEX 1: IMPLEMENTATION MATRIX

Policy Issue	Objective	Strategies	Performance Indicator	Implementing Institution	Timeframe	Budget
Legal and regulatory environment	To strengthen legal and regulatory framework	Review of the legal and regulatory framework in line with developments	Laws reviewed and harmonized	Parliament, TNT, OAG&DOJ, IRA, PPRA, BRS, RBA, NTSA, CAK, CMA, KRA, CBK	December 2025	50,000,000
		Enhance disclosure requirements	Amended Insurance Act	Parliament, TNT, OAG & DOJ, IRA	December 2022	10,000,000
		Develop a framework for recognition of community-based organisations involved in risk management	Amended Insurance Act	Parliament, TNT, OAG&DOJ, IRA	December 2023	10,000,000
		Promotion of Kenya as a regional insurance hub	Initiatives towards promotion of Kenya as an insurance hub	TNT, IRA	December 2022	10,000,000
Access and Uptake of Insurance	To increase insurance penetration and coverage	Develop capacity and professional skills to expand the scope of specialised insurance products and services	Number of insurance professionals trained in insurance. Number of insurance professionals in specialised areas of insurance.	IRA, IIK, TASK, INSTITUTIONS OF HIGHER LEARNING, MINISTRY OF AGRICULTURE	December 2025	50,000,000
		Review mandatory insurance products	Insurance Act and other relevant laws reviewed	Parliament, TNT, OAG&DOJ, IRA	December 2023	10,000,000

		Promote and development of specialized insurance	Initiatives towards Promotion and development of specialized insurance	TNT, IRA	December 2022	10,000,000
		Promotion of insurance distribution channels in line with market developments	Alternate distribution channels	TNT, IRA, AKI, AIBK,	December 2022	10,000,000
		Promotion of access and coverage of insurance services	Number of Incentives provided	TNT, IRA,	December 2023	10,000,000
		Improvement of the customer engagement culture	Increased customer satisfaction	IRA, AKI, AIBK	December 2023	50,000,000
		Promotion of appropriate incentives for growth and development of insurance business.	Incentives for growth	TNT, IRA		
		Promote the development of social insurance micro insurance	Number of micro insurance products, Social insurance schemes Premiums written	TNT, Parliament, TNT, OAG&DOJ, IRA, Relevant ministries	April 2024	100,000,000

			Number of consumer education programs carried out			
		Promote agriculture insurance	Number of agriculture insurance products, Social insurance schemes Premiums written Number of consumer education programs carried out	TNT, Parliament, TNT, OAG&DOJ, IRA, Relevant ministries	December 2025	15,000,000
Market Conduct	To promote a fair and competitive insurance industry through fair trading practices, ethical and professional conduct in the industry	Promote fair trading practices and competition	Amendments to the Insurance Act, Regulations developed. Number of publications on key industry information	TNT, Parliament, TNT, OAG&DOJ, IRA, CAK,	June 2023	5,000,000
		Promotion of public confidence in the insurance industry	Number of publications on enforcement actions Number of complaints Number of public awareness campaigns	TNT, IRA, AKI, CAK	June 2023	50,000,000
		Promote the development of technical capacity in specialized insurance areas	Number of insurance products in specialised areas	TNT, IRA, AKI,	June 2023	50,000,000

		Develop technical capacity and professionalism in the insurance industry	Number of people trained in insurance Number of people trained in specialised areas Code of conduct for insurance professional developed.	IRA, IIK, COI, TASK,	December 2023	50,000,000
		Promote ethics and professionalism in the insurance industry	Code of conduct for insurance professional developed.	IRA, IIK, COI, TASK	December 2023	50,000,000
		Promote fair treatment of insurance consumers	Enhance and implement the TCF framework	IRA	December 2023	50,000,000
		Promote financial literacy, public education, and awareness creation	Insurance Curriculum Number of public awareness campaigns Number of people trained	TNT, IRA, KIDC, Relevant ministries	December 2023	50,000,000
		Enhance market conduct regulation and supervision	Reviewed laws and regulations Enforcement actions reports	TNT, IRA	December 2023	10,000,000
		Strengthen policyholder's compensation mechanisms	Reviewed PCF Regulations	Parliament, TNT, OAG&DOJ, IRA	December 2023	50,000,000

			No. of policyholders compensated			
Safety and stability of the insurance industry	Implement and monitor prudential interventions to ensure safety and stability of the insurance industry	Enhance supervision and regulation of insurance business	Reviewed Regulations Enforcement	Parliament, TNT, OAG&DOJ, IRA	December 2023	20,000,000
		Develop and implement macro prudential framework for management of risks	Macro prudential framework Implementation of macro prudential framework	Parliament, TNT, OAG&DOJ, IRA	December 2023	20,000,000
		Strengthen insurance industry management of risk culture	Risk management framework for the industry	IRA	December 2023	5,000,000
		Develop and implement a framework for systemically important insurers	Framework for systemically important insurers Reviewed group wide supervision regulations	Parliament, TNT, OAG&DOJ, IRA	December 2023	5,000,000
		Enhance supervision of insurance groups	Reviewed group wide supervision regulations	Parliament, TNT, OAG&DOJ, IRA	December 2023	5,000,000
		Develop and implement mechanisms for efficient resolution and winding up troubled insurers	Reviewed prudential supervision guidelines	Parliament, TNT, OAG&DOJ, IRA	December 2023	5,000,000

			Framework for resolution of troubled insurers			
		Develop and implement coordination mechanisms for cross border crisis management	Framework for cross border crisis management	Parliament, TNT, OAG&DOJ, IRA	December 2023	5,000,000
Technology/ Innovation	Promote adoption of technology and innovation to spur the growth of the insurance industry	Promotion of adoption of technology	Number of initiates	TNT, ICTA, IRA	December 2024	70,000,000
		Promotion of mechanisms for insurance data management and sharing	Number of data sharing arrangements	Parliament, TNT, OAG&DOJ, IRA, AKI,	December 2023	60,000,000
		Promotion of research, development and innovations in the insurance industry	Number of new products	TNT, IRA, AKI	June 2023	100,000,000
		Review of legislation to promote use of technology	Laws reviewed	Parliament, TNT, OAG&DOJ, IRA, ICTA,	December 2023	10,000,000
		Promotion of partnerships and collaboration in technology and innovations in the insurance industry	Number of MoUs	Parliament, TNT, OAG&DOJ, IRA, ICTA, AKI, and relevant ministries	December 2023	10,000,000
Insurance of specialized and emerging risks	Encourage insurance coverage of specialized and emerging risks.	Development of capacity for the insurance industry to cover specialized and emerging risks	Number of insurance products in specialised areas	TNT, IRA, AKI, relevant ministries	December 2023	10,000,000

		Establishment of mechanism for protection against exposure to extreme events	Number of products covering extreme events	IRA	December 2025	10,000,000
		Development of a framework for insurance of public assets.	Framework for insurance of public assets developed	Parliament, TNT, OAG&DOJ, IRA, ICTA, AKI, and relevant ministries	December 2025	50,000,000

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