



POLICYHOLDERS COMPENSATION FUND

The Fund You Can Trust

EUROPEAN MEETING OF INSURANCE GUARANTEE SCHEMES

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IGS EXPERIENCES

KENYA

POLICYHOLDERS COMPENSATION FUND



Presentation outline



1. Overview
2. Introduction
3. Background
4. Stakeholders
5. Features
6. Experience

Overview



- Kenya Population – 45 million
- Insurance coverage – 3% of population (1.35 million mostly in formal sector)
- Insurance companies – 46 (27 Non-Life, 11 Life, 9 Composite)
- Insurance Assets – Kes. 358 bn (€ 3 bn)
- Insurance Liabilities – Kes. 260 bn (€ 2.16 bn)
- Gross Premiums – Kes 131 bn (€ 1.1 bn)
- Business allocation - Non-life 67% Life 33%

Overview



Insurance Industry oversight

- National Treasury
- Insurance Regulatory Authority
 - Insurance Fraud Investigative Unit
- Policyholders Compensation Fund
- College of Insurance

Introduction



Policyholders Compensation Fund (PCF)

- A scheme that protects the policyholders of an insolvent insurance company by paying compensation for their unsettled claims.

- Secondary purpose is to compliment development of the sector through:
 - i) Promoting confidence and stability
 - ii) Advising the Government policy matters

Introduction



- State Corporation under the National Treasury.
- Established within provisions of the Insurance Act.
- Commenced operations on 1st January 2005.

Background



- Established as part of reforms undertaken to address challenges in sector
 - Collapse of several insurers
 - Weak Governance & management structures
 - Lack of Professionalism
 - Fraud & Uncompetitive practices
- Need to protect stakeholder interests from the vulnerabilities caused by failures

Stakeholders



Policyholders

- Protection from losses & exposure to risks

Insurance Industry

- Policyholder confidence
- Business stability and growth

Government

- Citizens rights & well being
- Economic stability and growth

Features



Legal Provisions

- The Constitution of Kenya
 - Principles of consumer rights
- The Insurance Act
- The Policyholder Compensation Fund Regulations

Features



Coverage

- All classes of insurance business except
 - Pension
 - Re-insurance
- All unsettled claims
- Any policyholder holding a Kenyan policy
- Unearned premiums are not covered.

Features



Benefits

- Cash compensation
 - Before 2010 - Kes. 100,000 (€ 830)
 - After 2010 – Determined by Board
- Non-Life claims - Paid up to capped amount.
- Life contracts are transferred.

Features



Funding

- Pre-funded

Sources of Funding

- Contributions - 0.5% of Gross Premium
- Investment income
- Loans
- Government appropriations
- Penalties charged under the Insurance Act

Contributors:

- Insurers and Policyholders - 0.25% each

Features



Administration

- **Governance**

- Board of Trustees
- Government & Industry representation
- Appointed by the Minister in the National Treasury

- **Operations**

- Run from a Secretariat
- Closely work with the Supervisor

Features



Compensation

- Only payable after an insurer is wound up by the High Court – scheme of last resort.
- Board of Trustees empowered to:
 - Impose conditions for compliance
 - Determine compensation amounts
- Assignment of any rights a policyholder may have under or in respect of the policy.
- Time limit to lodge a claim is 2 years.

Experience



Contribution framework

- Both policyholders and insurers are contributors to the Fund.
- Need to remove contribution burden from policyholders

Way forward

- Amend the law to prescribe insurers as contributors (Insurance Bill, 2014)
- Review of the contribution rate (Actuarial Study, 2013)

Experience



No compensation paid to date

- The Fund is a scheme of 'last resort'
- Policyholders of 4 Non-life insurers awaiting conclusion of statutory management or court processes.

Way forward

- Amendment of the legal framework to provide for compensation at point of statutory management (Insurance Bill, 2014)

Experience



Limited scope of compensation coverage

- Only unsettled claims are covered.
- Need to expand scope of coverage to include unearned premiums

Way forward

Amendment of the legal framework to expand the mandate of PCF (Insurance Bill, 2014)

Experience



Absence of pre-determined compensation amount

- The law provides for the determination of compensation amounts by the Board of Trustee.
- Need to set amount for communication & planning

Way forward

- Determination of compensation amount/rates (Actuarial Study - 2013)
- Proposed amount – Kes. 500,000 (€ 4,160)

Experience



Mandate of the Fund

- The Fund is currently a pay box.
- Need to expand the mandate of the Fund to include other responsibilities

Way forward

- Proposal to include liquidation as additional responsibility (Insurance Bill, 2014)

Experience



Composition of Board of Trustees

- The law requires industry and government representation.
- Need to avoid conflict of interest and allow for independence.

Way forward

- Prescribe qualifications for independent members of the Board of Trustees (Insurance Bill, 2014)

Experience



Publicity

- Low awareness of existence of PCF by policyholders
- Need to increase knowledge of insurance safety net

Way forward

- Collaborate with insurance stakeholders to increase awareness and understanding of consumer protection

Experience



IFIGS

- The Fund is a member of IFIGS
- Benefited from new insights, information sharing & co-operation.

Way forward

- Support IFIGS activities
- Create awareness of IFIGS

End



Thank You



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