KENYAN EXPERIENCE WITH PARAMETRIC INSURANCE

Presented by: Joseph A. Owuor
Insurance Regulatory Authority - Kenya

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AGENDA

1. IBI Pilot Projects in Kenya

- ➢Examples of pilot projects
- ➢Role of the regulator
- ➢Regulatory/ Supervisory Issues

2. IBI Policy and Regulatory Framework in Kenya

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Index Based Insurance Pilot projects in Kenya

1. Kilimo Salama (Safe Agriculture) Index Based Agriculture Insurance

- Acre Africa registered as an Insurance Surveyor in Kenya
- Support from Syngenta foundation & GIIF
- Project started in 2009 - to protect small-scale farmers against unpredictable weather
- Insurer- UAP - a large insurance company based in Kenya,
- Crops insured include maize, sorghum, coffee, sun -flower, wheat, and potato,
- Coverage against drought, excess rain and storms
- Kilimo Salama currently insures over 70’000 farmers
- Also offers protection for seeds, chemicals and harvest outputs
- Premium income – over USD 2,100,000, Loss ratio 61% (5 years to 2014)

Source- Acre Africa, UAP Insurance

2. Index Based Livestock Insurance (IBLI)

First Contract – Asset Replacement (2010-2013, Marsabit)

- Uses Livestock mortality data modelled from NDVI
- Pays out when forage scarcity is predicted to cause livestock deaths in an area

- Rolled out in August 2013 – APA Insurance in Isiolo and Takaful Insurance of Africa in Wajir county

Challenges:

- Limited Mortality data for scaling up
- Data accuracy

New Kenya Contract -Asset Protection

- Complexity of design, data scarcity and precision concerns resulted in a move to NDVI only contracts
- Contract pays out at the beginning of the dry season rather than the end
- Insured Unit- Cost to keep livestock alive during drought
- Rolled out in January 2015 – APA Insurance (Marsabit & Isiolo), Takaful Insurance of Africa (Wajir , Isiolo, Mandera, Garissa) counties
- Greater attention to the science of remote sensing

Kenya Livestock Insurance Program (KLIP)

- Launched in Turkana and Wajir- with APA Insurance as the underwriter (October 2015)

- 5,012 pastoralists pre-selected by SDL as beneficiaries (2,510 in Wajir and 2,502 in Turkana). The contract should trigger twice a year i.e

- For the Short Rains Short Dry (SRSD) season of October – February – payout should be made by mid February of every year

- For the Long Rains Long Dry season (LRLD) of March –September – Payouts should be made by mid August of every year in case there is a trigger

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Kenya Livestock Insurance Program (KLIP)

- For the SRSD period, no location triggered a payout

- For the LRLD period, final index readings triggered in two areas (DIFF & BUTE units)

- 275 beneficiaries in the two UAI were affected

- A total of USD 35,266 paid to the beneficiaries

- The next phase to cover additional 4 counties (Marsabit, Mandera, Tana River and Isiolo)

3. Kenya Crop Insurance Scheme (AYII)

- **Insurance programme Launched in March 2016**

- Target – Farmers with < 5 acres parcels of land – maize and wheat crop
- Government subsidizes 50% of the premiums
- Insurance policy roll out (retail) – Embu, Bungoma and Nakuru counties
- Crop cutting Experiments to determine yield levels
- Compensation to the Insured for Shortfall below the Guaranteed Yield in the UAI
- Guaranteed Yield – 80% of Expected Yield per unit Area of Insurance

- **Expansion to 12 Counties expected in the next year**

Role of the Regulator

- Regulatory exemptions – faster product approval procesa
- Consumer awareness/ education campaigns
- Facilitating PPPs – government and private insurance sector
- Advise the government on how to improve the subsidised schemes (KLIP & KCIP)
- Consumer protection

Regulatory Issues/Challenges

- Creating a separate class of business called IBI & commission caps
- Allow for a separate method of calculating the technical reserves
- Specify index based insurance specific capital requirements;
- Position on insurable interest for an index based insurance contract- when should it be determined?
- Delay in enacting regulations to set the legal framework

Regulatory Issues/Challenges contd..

- Is it insurance or derivative?
- What if it is a derivative and not insurance- how should it be regulated?
- Data on pilot schemes – lack of statistical information on volumes covered, premiums collected and claims paid
- Lack of formal distribution channels

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Index Based Insurance Policy and Regulatory Framework in Kenya

Policy and Regulatory Framework

- The Authority has been very supportive of the development of pilot index-based insurance products in the Kenyan market.

- These pilot products may need to be redesigned once the formal regulations and product approval guidelines come into force.

- The pilot IBI products started selling in the Kenya market way back in the year 2010

- About 7 leading companies are involved in the pilot phase of IBI products

Current Regulatory Environment

- Internationally, no application paper exists on index-based insurance
- IAIS currently has a working group drafting a paper on IBI
- In Kenya draft IBI regulations exist
- Products used on pilot basis have been given regulatory exemptions
  - Helps encourage market development of the product
  - Gives understanding of what works and what does not

Key Regulatory Considerations

- **The product must offer Fixed-sum instead of Indemnity insurance**
  - Allows for consequential losses and mitigation costs
  - The index can only serve as a proxy for the actual loss
  - The policy must not promise indemnity payment and IBI products must not be sold as indemnity contracts

- **Insurable interest exist if there is prospect of adverse impact on the insured should the insured risk occur**
  - Contract must state the risk against which insurance is provided. This is intended to distinguish under insurance from basis risk

Product Approval Process

1. Insurers to submit premiums on file-and–use basis only, one month prior to taking effect

2. State eligibility criteria- qualifying a person as able to purchase the contract (insurable interest determination)

3 No waiting period- sales, premium payment and cover windows should be clearly specified,

4 Exclusions allowed – explain exclusion if a micro index based product,

5 No grace period/cancellations allowed- to minimize adverse selection by policyholder or discrimination by insurer

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Product Approval Process contd..

6. Must specify the data sources and back-up sources or process /alternative index

7. Explain design features included to **minimize basis risk** in an **actuarial report**
   - Specify how index will be measured and results used to calculate the pay-out
   - Interested 3rd party be allowed to receive data and calculate the pay-out themselves

8. Policyholders do not need to lodge a claim – insurer must provide a notice

9. Insurer must specify a complaints resolution process prior to product launch

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Reporting and Valuation requirements

1. Authority require performance monitoring to ensure value for money

- Insurer to report index values vs. actual payments to ensure correct payouts

2. Modify the Method of calculating technical liabilities

- **Calculation of the unearned premium reserves**
  - Assume risk only expires at the end of the insured period; or
  - Assume risk expired proportionally over the cover window of the policy
- **Calculation of the outstanding claims incurred reserves**
  - Appointed actuary to use any method but describe method used in valuation report
- **Calculation of the capital requirements**
  - The Authority should require specific capital requirements

Consumer Protection requirements

- **Marketing material should explain product and risks**

- Explain that pay-out depends on the value of the index and not the actual loss
- Explain which risks are covered and which will not be; what index is used to calculate the pay-out and expected frequency of payout
- Explain the eligibility criteria for buying the policy

- **Pay-outs must be verified, communicated and paid within 30 days**

- **If regulator requires independent validation of index data**

- A service level agreement is needed with the independent body which
- The SLA must explain how to resolve conflicts over the data, index values and benefits
- The SLA must explain the penalties independent body is liable for if it makes mistakes

Thank you !