

Njuguna Ndung'u: Developments in Kenya's insurance industry sector

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the launch of Continental Reinsurance brand and products, Nairobi office, Nairobi, 5 July 2012.

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The Chairman, Continental Re, Nigeria

Distinguished guests,

Ladies and Gentlemen.

Many thanks indeed to Continental Reinsurance for having invited me here today at this auspicious occasion where Continental Re is launching its brand in Kenya. It is extremely heartening to see such a strong attendance for this breakfast meeting.

Firstly, allow me to spend a few moments to reflect upon the future of the Kenyan insurance industry based on my experience, and to provide some thoughts and advice on where reinsurers such as Continental Reinsurance can contribute additional value in the sector.

The Kenyan insurance market wrote KShs. 100 billion of Gross Direct Premiums in the year 2011. It has grown at an average rate of 16% p.a. over the last 5 years. The market comprises of 45 insurance companies, transacting long-term and short-term insurance business. In addition, there are over 140 insurance brokers operating in the Kenyan insurance market. Competition is strong and therefore clear market positioning is essential.

I am standing here today wearing two hats: one, as Regulator of the banking sector and secondly, as a Board Member of the IRA. I have seen that there is a strong requirement for products that are driven by a real need from customers – products that appeal to a specific demand. I am happy to note therefore that the industry is addressing the matter of innovation and are designing new products particularly targeting the lower market. This is the way in which the insurance industry will be able to enhance the level of financial inclusion among the population.

By way of example, let us look at the agricultural sector – which, comprises a vital 80% of our economy with a 26% contribution to GDP. Insurance and reinsurance should play a bigger role in the development of the agricultural sector in Kenya. I am sure that, Weather-index micro insurance schemes are making a measurable impact where payouts enable farmers to recover from what would otherwise be financial disaster. For instance in August last year, 3,380 farmers received compensation for the loss of their crops, totalling approximately KShs. 150 million. The transfer of weather risk away from these farmers to the international insurance markets strengthens the resilience of farmers and agricultural businesses to weather impacts. It provides additional – and important – security which also supports our Kenyan economy.

A great benefit for the development of micro insurance is the deepening of penetration per capita. Currently most micro insurance schemes are run as small pilot type arrangements and continue to face a number of regulatory and operational challenges.

I am informed that a policy framework paper has now been developed by the micro insurance working group set up by the Insurance Regulatory Authority and the same has been forwarded to the Ministry of Finance for further attention. In this regard, the Minister during his budget speech recognized micro insurance as a standalone class of insurance, giving it the prominence that it deserves.

Ladies and gentlemen, insurance penetration in Kenya is 3% – high by African standards, but with a long way to go still. I appeal to leaders and operators in the sector to harness the growth opportunities and to think forward, to think innovatively. For example, the recent discovery of oil and gas in Kenya has marked a significant opportunity for this sector. We

have had the chance to see how other African countries have tackled the discovery of important natural resources, and the onus is now firmly on us to learn from their successes, and from their mistakes. We know, for example, that there is long way to go to prepare our country for the technical intelligence required to provide security around the multitude of issues that accompany a discovery of this kind. I request the insurance and reinsurance market to test out the structures in place for oil and gas insurance. We need to be prepared as an industry and as a country in order that we safeguard against future potential issues resulting from the mining of our natural resources.

In this regard Mr. Chairman, I wish to applaud Continental Reinsurance's steps in progressing product innovation and development including Oil and Gas, and look forward to learning from your experience.

Lastly, ladies and gentlemen, I urge the insurance industry to position itself for the economic integration in the East African Union. As you are already aware, the common market protocol of the East African Community (EAC) creates a big market full of opportunities. This is the way to go in terms of integration and expansion within the EAC and beyond. Indeed today's occasion is a realization of that spirit as we congratulate Continental Re (a Nigerian company) on their authorization to transact fully reinsurance business in Kenya. This trend is the beginning of what I predict will be the future of the insurance and reinsurance market in Africa-spreading across countries with free movement and with the opportunity to exploit full cross-border growth. I therefore challenge the industry to prepare for this eventuality in a timely manner.

Once more ladies and gentlemen, I would like to thank the Continental Reinsurance company on this auspicious occasion and to wish them all success.

Thank you.