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BUSINESS

Marine insurance too complex for East African firms, importers say

Cargo ship at the port of Mombasa. Insurance companies in the region are now eyeing a $170 million marine insurance dividend following the Kenya National Treasury's directive to cargo importers to insure with local insurers from January 1, 2017 when the new law takes effect. PHOTO | FILE

IN SUMMARY

- Importers are concerned over the financial and technical capacities of local insurers.
- This comes even as it emerged that the East African region has paid about $425 million to foreign insurance companies in the past seven years.
- The governments want to keep this money in the region with the implementation of Section 20 of the Insurance Act that stipulates all commercial imports must be insured locally effective January 1, 2017.

Importers in East Africa are worried over a law compelling them to insure marine businesses locally, arguing that insurance companies lack the capacity to underwrite the complex business.

They further say that the law will lead to yet another disagreement with the Kenya Revenue Authority over tax collection.

This comes even as it emerged that the East African region has paid about $425 million to foreign insurance companies in the past seven years.

"The governments of East Africa have therefore been losing a significant amount of revenue during this period," said Gilbert Langat, Shippers Council of Eastern Africa chief executive.

The governments want to keep this money in the region with the implementation of Section 20 of the Insurance Act that stipulates all commercial imports must be insured locally effective January 1, 2017.

Tax authorities in the region are hoping the new law will shore up revenue collection, considering insurance companies pay a duty equivalent to 0.05 per cent of the insured consignment's value.

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However, importers are concerned over the ability of local insurers to underwrite the complex business in terms of financial and technical capacity, price competitiveness of locally available products and claims payments.

They are also concerned that KRA, which is supposed to enforce the law, is yet to automate the process by linking it to the TradeNet and Simba systems, a situation that may ignite a cargo clearing crisis come January.

"The cost of obtaining insurance locally must not increase the current logistics costs, which are some of the highest in the world," said Mr Langat.

Taskforce

State Department of Shipping and Maritime Affairs Principal Secretary Nancy Karigithu said a taskforce will be formed to address the concerns, iron out any hitches and ensure a smooth transition.

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“The taskforce will be expected to establish why many importers and exporters prefer to take cargo insurance cover overseas,” she said.

She added that the taskforce will develop a joint action plan of all concerned parties for awareness campaigns. It will also come up with ways to align insurance penetration strategies with emerging maritime cluster developments.

The anticipated coming into effect of the Act has has been welcomed by the insurance industry, which is seeking to benefit from business estimated to be worth $220 million.

Research by the Association of Kenya Insurers shows that underwriters have largely been locked out of the lucrative marine insurance business.

In 2015, local insurance companies earned only $26 million in annual premiums, representing only 1.7 per cent of total industry gross premiums. Notably, 79 per cent of imports and 64 per cent of exports into the East African region were not insured locally.

The law will change the current setup in which importers are subjected to a cost, insurance and freight (CIF) regime yet they have no control over the transportation and insurance services in the entire logistics chain.

Under the new law, imports will be on a cost and freight basis, which will allow local insurers to pick up the insurance component.

Insurers are upbeat the law will drive uptake of marine insurance, with the target being to increase annual premiums to $96 million over the next two years.

The implementation of the law comes as cargo import through the port of Mombasa is on the rise. In 2014 and 2015, the port handled an average of 68 per cent of the cargo destined for the Kenyan market.

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