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Sh17bn windfall for Kenya marine insurers

Kenya Revenue Authority Commissioner- General John Njiraini and Maritime and Shipping Affairs Principal Secretary Nancy Karingithu during a media briefing on the implementation of the marine cargo insurance policy. PHOTO | DIANA NGILA Kenya Revenue Authority Commissioner- General John Njiraini and Maritime and Shipping Affairs Principal Secretary Nancy Karingithu during a media briefing on the implementation of the marine cargo insurance policy. PHOTO | DIANA NGILA

IN SUMMARY

- From January 1 importers must produce insurance certificates from local firms before clearance.

Insurance firms are eying a Sh17 billion windfall from January 1 when a new law that compels importers to buy policy from local payers takes effect.

Industry estimates show that such a requirement will push marine cargo insurance premiums handled by Kenyan underwriters from Sh2.9 billion last year to over Sh20 billion.

About 90 per cent of cargo import insurance is currently handled by foreign firms with importers usually paying the premiums as part of a package (Cost, Insurance and Freight- CIF) to the exporter who handles the underwriting.

“This means that Kenya’s importers are exporting about Sh20-25 billion per year, typically in hard currencies, to foreign, offshore insurance companies and industries,” James Macharia, the Transport Cabinet Secretary (CS) said in a speech read on his behalf yesterday by Nancy Karigithu, Principal Secretary, Shipping and Maritime Affairs.

“The government needs higher insurance penetration and a more profitable industry; the industry needs to capture these fleeing funds, retain them in our economy, improve its capacity to serve and of course pay more taxes.”

Sammy Makove, the Insurance Regulatory Authority (IRA) chief executive said that on average, the cost of insurance will be about 0.5 per cent of the value of the imports.

The requirement for local insurance is contained in Section 20 of the Insurance Act but has never been implemented due to compliance challenges.

Treasury CS Henry Rotich in his June 8 budget speech directed the Kenya Revenue Authority (KRA) and other stakeholders to fully implement the section to boost insurance business.

The implementation will be overseen by the KRA which will now demand importers show their insurance contract with a local firm before clearing goods.

Importers will have to produce proof of local insurance before their goods can be inspected at the source country.

Currently, it is a requirement that imports be verified in the source country under the Pre-Export Verification of Conformity (PVoC) mechanism set up by the KRA and the Kenya Bureau of Standards (Kebs).

Kenya Shippers Council chief executive Gilbert Langat said their main concern as importers was the capacity of Kenyan underwriters to handle large shipments like bulk cargo that may, for example, have a value of over Sh4 billion.

“I would like to assure importers and the public in general that our insurance companies have the capacity to locally insure and even re-insure marine business,” Mr Makove said.

Association of Kenya Insurers (AKI) chief executive Tom Gichuhi said underwriters had enough capacity, adding that in the event they cannot handle some of the business, they will subcontract to international insurers.

There are about 15 underwriters who currently offer marine insurance with this number expected to grow as the business widens.

At Sh20 billion, the marine insurance will add about 11 per cent to the total premiums (Sh170 billion) currently handled by Kenyan firms. This will add a key sector to the industry which is currently dominated by motor vehicle and medical classes.

Data from the Kenya National Bureau of Statistics shows that Kenya imported Sh1.57 billion goods last year.

Local imports are growing at a rate of 9-11 per cent annually with Mr Macharia saying that at this rate, they expect the inbound shippments to top Sh2-2.2 trillion by 2020.

This will see marine cargo insurance business hit Sh28-30 billion in the next four years in what will offer a lucrative source for the underwriters to grow their business.

KRA Commissioner-General John Njiraini asked for automation of claims management in marine insurance to allow for easier and faster processing.

Mr Macharia asked the AKI and IRA to embark on importer sensitisation and education on how the new system will work ahead of the January 1 rollout.

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