

Shippers get state help to buy local insurance

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Cargo vessels berth at the Port of Mombasa on February 5, 2016. PHOTO | FILE | NATION MEDIA GROUP

In Summary

- About 90 per cent of cargo import insurance was previously handled by foreign firms, with importers paying the premiums as part of a package (cost, insurance and freight (CIF) to exporters who handle the underwriting.
- The National Treasury bolstered the role of local insurers in the segment this year when Cabinet Secretary Henry Rotich, in his 2016/2017 budget statement, outlined measures to help grow the penetration of local players by making sure imports into Kenya are on cost and freight basis only.

By BRIAN NGUGI

The State stepped in to help Kenyan shippers swiftly buy local marine insurance in line with the law which came into effect on January 1, 2017.

State Department of Shipping and Maritime affairs Principal Secretary Nancy Karigithu said so far no hitches have been encountered in the implementation of the law as the industry had set up various measures to ensure they meet the challenges that may come along with the opportunities the law provide.

“Much progress has been made so far in sensitising traders, underwriters, re-insurers, Government agencies and the general public as well as putting up a dedicated desk by the Kenya Revenue Authority to ensure smooth implementation of the law,” Mrs

Karigithu told Smart Company.

Several firms have unveiled strategies including new portals in a bid to clinch big business since Section 20 of the Insurance Act took effect. The law prohibits procurement of marine insurance cover from foreign firms “except in exceptional circumstances.”

Mrs Karigithu said a stakeholders taskforce initially set up to establish the implementation roadmap and provide possible recommendations had completed the report for the implementation but would remain in place in order to “as much as possible,” ensure a seamless transition.

Underwriting muscle

Experts had earlier warned against the “big bang” implementation of the new law saying based on the volume of cargo to be insured, Kenyan firms need huge underwriting muscle to win the confidence of importers.

But local insurers have dismissed the claims of inadequate capacity saying they are up to task.

“It’s the business we do and it’s what we have been doing. We have the necessary financial and technical capacity to underwrite the marine cargo business,” said Association of Kenya Insurers (AKI) CEO Tom Gichuhi.

According to Mrs Karigithu a phased approach to the implementation of the law by a joint team set up by her State Department is meant to ensure its success.

“Through the combined team of my Department, Kenya Association of Insurers, Kenya Revenue Authority, Insurance Regulatory Authority, Kentrade and members of the taskforce I put in place, there has been a very intense consultative process following which we have taken a number of initiatives to ensure smooth flow of the implementation including phased-implementation approach on various types of cargoes starting with motor vehicles, containerised cargo then progressing to other types of cargo,” she said.

She said the Taskforce will remain in place to midwife the implementation process and answer any concerns that may arise on the road map.

Insurance companies in the general business have been aggressively positioning themselves to take advantage of the opportunity that is expected to boost their premiums by about Sh17 billion.

About 90 per cent of cargo import insurance was previously handled by foreign firms, with importers paying the premiums as part of a package (cost, insurance and freight (CIF) to exporters who handle the underwriting.

The Kenya Revenue Authority (KRA) deputy commissioner of Customs Charlie Onduso had earlier said the taxman is eyeing the new business to help it grow revenues given that insurance companies pay a duty equivalent to 0.05 per cent of the insured consignment’s value.

“So far, KRA has not encountered any operational hitches connected with the implementation of the marine cargo insurance law,” said KRA last week in a statement.

“...The cost of insurance is factored in the determination of Customs value of imported goods. In this regard, KRA is working closely with the relevant stakeholders to facilitate implementation of the marine cargo insurance law.”

The National Treasury bolstered the role of local insurers in the segment this year when Cabinet Secretary Henry Rotich, in his 2016/2017 budget statement, outlined measures to help grow the penetration of local players by making sure imports into Kenya are on cost and freight basis only.

Importers had through Shippers Council chief executive Gilbert Langat said earlier, the Kenyan insurance industry must demonstrate both financial and technical capacity to undertake marine insurance locally.

“Another major concern for shippers is price competitiveness of the products that are locally available,” said Mr Langat.

Test for insurers

“Claims settlement and service level agreement must be clearly stipulated while procuring local marine insurance. The test for insurers will be in the time it takes to settle claims and ensuring that the importer incurs very minimal cost in the process.”

Marine insurance covers movement of cargo from one location to another against risks like damage, pilferage, theft or nondelivery. It had until now been the preserve of deep-pocketed foreign underwriters.

Statistics show Kenya imports goods worth Sh1.57 trillion annually, with 90 per cent of this being insured with offshore providers.

The imports are expected to hit between Sh2 trillion and Sh2.2 trillion by 2020, yielding potential marine cargo insurance spend of over Sh30 billion annually in premiums.

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