STAKEHOLDERS LOBBY FOR MORE MARINE INSURANCE BUSINESS

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Maritime and insurance players have recommended drastic measures to bring back billions of dollars traders cede in premium to foreign insurers who insure exports and imports traded in the region.

Mr. Kenneth Mwige, the Secretary General of the Intergovernmental Standing Committee on Shipping (ISCOS) noted that although the law is elaborately clear on how the marine insurance should be procured, lack of coordination between various government agencies has led to serious weaknesses of enforceability.

It is the need to retain revenue in Kenya in the form of insurance premiums and the creation of business for the domestic insurance players that informed the enactment in 1999 of section 20(2) of the Insurance Act. The section provides for compulsory insurance of marine cargo imports by Kenyan importers by locally registered companies.

Section 20(1) of the Insurance Act (Chapter 487, Laws of Kenya) provides: "… No insurer, broker, agent or other person shall directly or indirectly place any Kenya business other than re-insurance business with an insurer not registered under this Act without the prior approval, whether individually or generally, in writing of the commissioner…"

According to Mr Mwige, the good story ends there. "These provisions have been honored only in the breach in Kenya. The last documented attempt to address this issue was in the year 2001, by the Association of Kenya Insurers (AKI) under the auspices of Central Bank of Kenya and the Ministry of Finance."

Although Insurance Regulatory Authority (IRA) as a regulator is supposed to implement the act, it does not play any role in cargo export and import. Mr John Omingo a senior official at Kenya Maritime Authority (KMA), the industry regulator, says that apart from devising various strategies to enforce the law, players should sensitize traders on international commercial terms that would allow them to procure more marine insurance locally.

One of the far reaching recommendations was made by ISCOS. "The CBK being seriously concerned about the revelations arising from this workshop, and in the exercise of its powers under the Banking Act Cap 488 of Laws of Kenya, orders licensed banks and financial institutions to forthwith cease issuing Letters of Credit without proof of local rine cargo insurance in conformance with the law," Mwige told a recent marine insurance workshop held in Nairobi.

This, according to Mr Omingo should be reinforced by development of a joint Insurance action plan by KMA, Association of Kenya Insurance (AKI) and IRA. Another radical recommendation asked the Kenya Revenue Authority (KRA) Customs Directorate to clear only those goods that have been insured locally.

Mwige proposed, "Alarmed by the amount of dollars evading Kenya revenue basket, the customs directorate should put measures in place to discourage importation of any commercial goods through any of the Kenya's entry points with a certificate of insurance issued by a foreign insurance company."

Peter Mukuria, the Assistant General Manager, Business Development, Commercial lines at ICEA Lion General Insurance gave worrying statistics on the losses the country is experiencing by insuring through foreign firms, which should make the government to intervene.

In 2014, Kenya's total imports were Sh 1,618.3 billion. In the same year, Kenya's total exports were Sh 537.2 billion. This represented a total potential sum insured of Sh 2,155.5 billion. At an average rate of about 0.5%, this would produce a premium of Sh 10.7 billion, he said.

In 2014, 34 insurance companies transacted marine business, the statistics indicated, and its only 4 companies that wrote total marine premium of Sh 200 million and above and only 12 companies securing deals of marine premium of Sh 100 million and above.

According to KMA, average marine cargo insurance premium exported annually stands at Sh 12.4 billion. In the last seven years, the country has lost a total of Sh 86.5 billion with marine insurance contributing only Sh 2.73 billion in 2014.

Things are not different in the neighbouring countries. Burundi, Congo, Kenya, Rwanda, Tanzania, Uganda, Malawi and Zambia exported insurance premiums on marine cargo worth US $ 4.89 billion over a period of 5 years between 2009 and 2013, according to ISCOS, a regional maritime and shipping body whose mission is to advocate for efficient and competitive shipping and maritime services in the Eastern, Central and Southern Africa region.

“Almost $ 5 billion in only one electoral cycle donated by warm, kind and generous Africans to appreciative, graceful and eternally friendly foreigners,” said Mr Mwige.

Poor law enforcement notwithstanding, lack of sufficient knowledge on which International Commercial Terms technically called INCOTERMS to apply has been a major contributing factor. The chairman of the Kenya International Freight and Warehousing Association (KIFWA) Mr Auni Bhaiji said that clarity of the scope and the extent of cover are misty.
“It is a non core business for Importers/Exporters,” Bhaiji said, adding that the administration and follow up of claims is considered lengthy by some players.

Most shippers from the region import on Cost Insurance Freight (CIF) and export on Free on Board (FOB). When goods are imported on CIF, it means the importer has no control over the transportation and insurance services in the entire logistical supply chain.

It is the foreign exporter who decides which transporter or insurance company to use. Worse still, it is hard to know whether appropriate insurance cover was procured at all by the supplier in the first place. Mwige says that it is a traditional practice that in most of the developing countries that many importers and exporters buy CIF and sell FOB.

“The consequence of this unfortunate traditional practice is that marine insurance particularly for goods and products supports foreign industries at the cost of the local Kenyan insurance industry and by extension, the economy of the republic of Kenya.” Mwige said.

“The most serious problem is that importers cannot be sure that insurance was procured in the first place. Also, in case of a loss, the procedure for processing the claim is so cumbersome and tedious that small importers forego their claims,” the AKI chief executive Mr Tom Gichuhi said in an earlier interview.

Apart from saving the economy billions, industry players said, using the correct INCOTERMS have other benefits to the economy. It is key in developing local transport with ripple effects of boosting revenue collection and job creation.

Individual importers can be able to negotiate for discounts on freight and insurance rates given to regular and quantity of imports and exports. They also enjoy easy processing of insurance claims and freedom to choose a carrier offering the most suitable terms.

Also there are other factors such as liquidity problems of most local exporters who are most often constrained to cater for transportation expenses, particularly if the buyer does not pay them in advance.

“Importers generally buy CIF if they are new in international trade or they have very small shipments. It is a more convenient way of shipping since they don’t have to deal with freight or other shipping details, but it comes at an extra cost,” a shipping expert said.

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