TASK FORCE LAYS GROUND FOR LOCAL MARINE INSURANCE RULE

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Subheading: *Importers without a local marine cargo insurance certificate, the insurance part in the customs value will be calculated at 1.5 percent of the total cost of goods and freight.*

Stakeholders are optimistic that the insurance industry has put in place all the necessary measures needed to implement this year's directive that requires all the imported cargo to be insured by local underwriters.

Kenya Revenue Authority (KRA) was directed by the Treasury Cabinet Secretary Mr Henry Rotich to enforce the often ignored Section 20 of the Insurance Act that provides for that. Following this directive, a multiagency taskforce was formed and has been working with the insurance industry and stakeholders to lay down an implementation roadmap for the January 1st 2017 deadline, according to Mr Ken Mwige who is also the Secretary-General of the Intergovernmental Standing Committee on Shipping (ISCOS), a key implementing agency.

Writing on behalf of the Commissioner, Customs and Border Control at KRA, Mr Julius Kihara said that the taxman is working closely with the KenTrade, which is implementing the Kenya TradeNet System, the online cargo system, to accommodate the new measure.

" The two agencies are working together to come up with more enhanced system which will be accommodative to the new system of Integrated Customs Management System which is about to be rolled out but in short term, the marine certificate generated by insurers will be accommodated into customs through single window system," Kihara wrote.

All the cargo clearance process is now being done through the online platform and those importers without the marine insurance certificate, the insurance part in the customs value will be calculated at 1.5 percent of the total cost of goods and freight, which is over twice the prevailing rate of the premiums that is less than 0.7 percent.

The industry, according to Mr Mwige has laid grounds for the January deadline and the government has already set some benchmarks that the government expects from the insurance industry. One of them is an assurance that the industry will have the capacity to cover all imports into the country.

The industry, Mr Mwige added, is also expected to demonstrate that it has put in place administrative measures to ensure that the enforcement of the policy will not inconvenience importers and that claims will be paid within 30 days.

"We will be looking for the systems the industry has put in place to ensure that Kenya's importers are able to conveniently procure marine cargo insurance locally," Mr Mwige, whose organization played a central role in lobbying the government to enforce Section 20, said.

The Shippers Council of East Africa (SCEA) recently raised concerns on whether the industry was prepared to provide covers for all imports by January. Also other industry players have expressed similar concerns.

Mr Silvester Kututa, a shipping expert and the managing director of Express Shipping Logistics (ESL) said that the move to have the importers procure marine insurance locally was welcome, adding that marine insurance sector is highly technical and underwriters may need to create new marine insurance departments to effectively provide all the services.

The primary challenge the insurance industry faces is to first secure all the import business, which they can easily do by working in partnership.

"Once we have ensured that no marine insurance or re-insurance business leaves Kenya's borders, then the players can compete among themselves for market share," Mr Mwige said, adding that there are huge import consignments such as petroleum, oil, gas and palm oil that would require insurance firms to collaborate to provide adequate cover.

"The marine cargo insurance market has just been expanded by a factor of 10. Assuming all insurance companies offering marine cargo insurance maintain their current market share, the value of that market share, however small or big, has just been multiplied by a factor of 10 by the Government. This is a win-win situation and we are concerned in Government that the industry should not lose sight of the big picture in pursuit of individual interests," Mr Mwige said.

Goods imported in Kenya can earn the insurance industry premiums well in excess of 20 billion shillings every year. However, due to poor coordination among the agencies involved in clearing cargo imports, over the years, it has been very hard to enforce Section 20 forcing the country to cede premiums to foreign insurers.

The sub-sector earned Sh 2.7 billion annual premium business representing 1.7% of total industry gross premiums as of July 2015. According to Insurance Regulatory Authority (IRA), there were 49 registered insurance companies in Kenya with 34 offering marine cargo insurance products.

Of the 34 insurers that transacted MCI, only four- GA, ICEA Lion, Kenindia and APA Insurance transacted more than KES 200 million each, in gross premiums. On-shoring marine cargo insurance would increase the marine cargo share of total industry premiums from the current 1.7% to 10%, being KES 2.7 billion to KES 16-18 billion a year, according to Ms Nancy Karigithu, the Principal Secretary of the State Department of Shipping and Maritime Affairs.

Most importers from the East African region import on Cost Insurance Freight (CIF). When goods are imported on CIF basis, it means that the importer has no control over the transportation and insurance services in the entire logistical supply chain as it is organized at the source market.

"The most serious problem is that when insured abroad, importers cannot be sure that insurance was procured in the first place, or which class of insurance was procured by the foreign seller. Also, in the case of a loss, the procedure for processing the claim is so cumbersome and tedious that small importers forego their claims," the Association of Kenya Insurers (AKI) chief executive Mr Tom Gichuhi said in an earlier interview.

A research study carried out by the AKI in 2013 identified factors that contributed to low uptake of MCI in the country. The study blamed lack of awareness among importers of the availability of suitable insurance products to cover their incoming cargo.

The standard of service delivery was said to be low, more so in comparison to what is currently seen in other industries such as the banking industry and survey respondents felt ill-informed about the terms of insurance. They did not understand the products, according to the study.

ISCOS is promoting the retention of marine cargo insurance premiums in the entire East, Central and Southern Africa region, and hopes that the lessons learnt in Kenya will guide other countries in realizing the benefits of on-shoring marine cargo insurance

Apart from bringing to the country billions lost in premiums to foreign insurers, Ms. Karigithu said that the coordination between various agencies involved in the cargo clearing will increase the level of compliance and significantly reduce the volume of illegal trade.

The new directive will be 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.

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