

State of SME Insurance in Kenya 2021

Need for Innovation driven inflection



Viffa Consult

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Acronyms

IRA Insurance Regulatory Authority
IT Information Technology
NSSF National Social Security Fund
SACCO Savings and credit cooperative society
SME Small Medium Enterprises

List of Figures

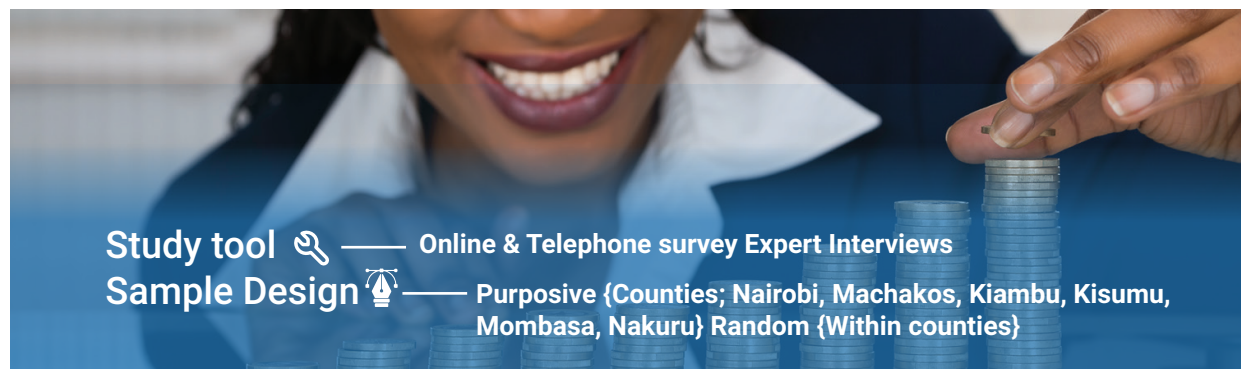
Figure 1: IRA Innovation methodology

Acknowledgement

Deepest gratitude to Viffa team that worked tirelessly to bring the report to fruition. A big thank you to all SMEs and Startups who participated in the survey as well as key experts who shared their expertise.

Special thanks to Elias Omondi; Associate Actuary at the Insurance Regulatory Authority (IRA) and The Tellistic Team for their invaluable insights.

Study Methodology





Introduction

SMEs in Kenya deal with great levels of risk and uncertainty from; political risk, terrorism, unexplained fires, theft and burglary, compromised IT infrastructure (Cybercrime), workplace accidents and contract disputes among others.

These risks together with other factors collectively contribute to Kenya's SME mortality rate which stands at 75% within 3 years (KNBS MSME Report 2016)

On the other hand, insurance companies seem to operate on product philosophy a situation where products are developed and are forced down the throats of customers using aggressive sales and marketing strategy.

This is in contrast to design thinking or customer marketing philosophy where companies' co create products with the specific customer pain points at the centre.

The situation is aggravated by the fact that insurance companies hypothesize that lack of education is the sole reasons why SMEs are not taking up insurance products with Kenya having an insurance penetration of less than 3 per cent.

The Kenyan government through the 2020 budget policy statement desires to formulate a nation policy for the insurance industry in Kenya to strengthen the framework of providing insurance services in the country with special focus on pension coverage of informal sector as well as increase insurance penetration.

The insurance sector though highly regulated has lagged behind the rest of the financial sector in terms of innovation.

Viffa conducted its second edition survey whose objective is to help SME eco system players in the insurance sector develop relevant product based on actual risk pain points faced by SMEs in Kenya.

Results

Retirement plan





SME Retirement Insight

Retirement plans for a majority of entrepreneur revolve around the success of their business to generate enough profits to enable;

1. Investment in property in order to get rental income post retirement
2. Personal savings to be utilized post retirement
3. Business survive past retirement age of founder in order to receive post retirement income in form of dividend

Most pressing Business Risk



Disruption due to political related activities



Delayed payments by debtors



Burglary and theft



Fire



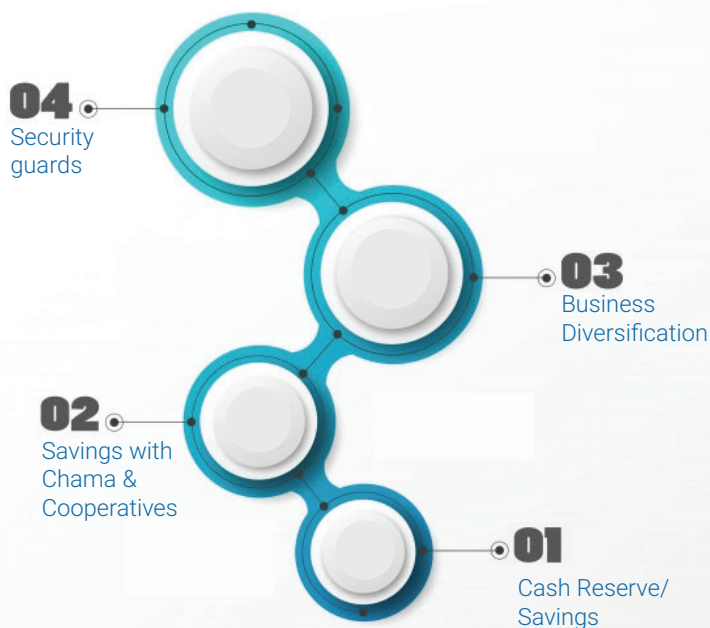
Natural disaster (Floods & Drought)



Business Risk Insight

- Most pressing risk for a majority of SMEs was disruption related to a state of constant political activities leading to loss of revenue
- The risk of fire was most pressing to SMEs in wholesale and retail sectors located in major markets such as Gikomba, Toy among others.
- The risk of natural disaster has become a major concern for SMEs in two important and related sectors of agriculture and manufacturing driven by changing weather patterns underpinned on climate change

Mode of mitigating Business Risk



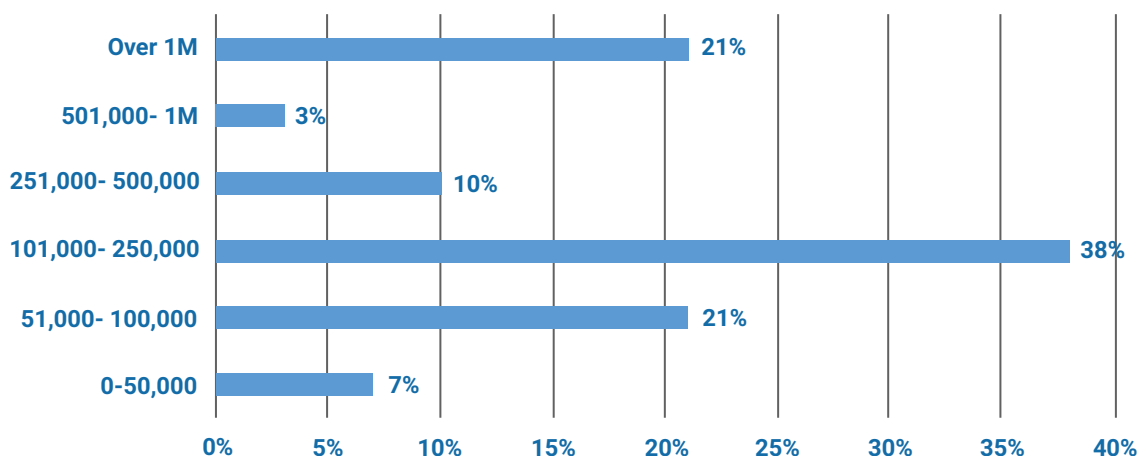
Risk Mitigation Insight

1. SMEs rely majorly on savings saved on various platforms such as personal savings at home, chama, table banking and savings cooperatives to manage risk generally

2. Cash is mostly preferred because it can be redeployed back to business in case risk is not realized. Players in the industry can consider cash back to their products as a percentage of premium paid to insured SME clients whose risk is not realized in the period covered. Eg if client has not made a claim in 2020 they get cash back in 2021

3. Risk mitigation through business diversification has been deployed to manage risk related to political disruption as well as delayed payment through intra or cross business lending. For example; a businessman selling electronics in Nairobi will have either a similar or a different in Eldoret to spread risk in case of a slow down due to disruption in Nairobi and vice versa.

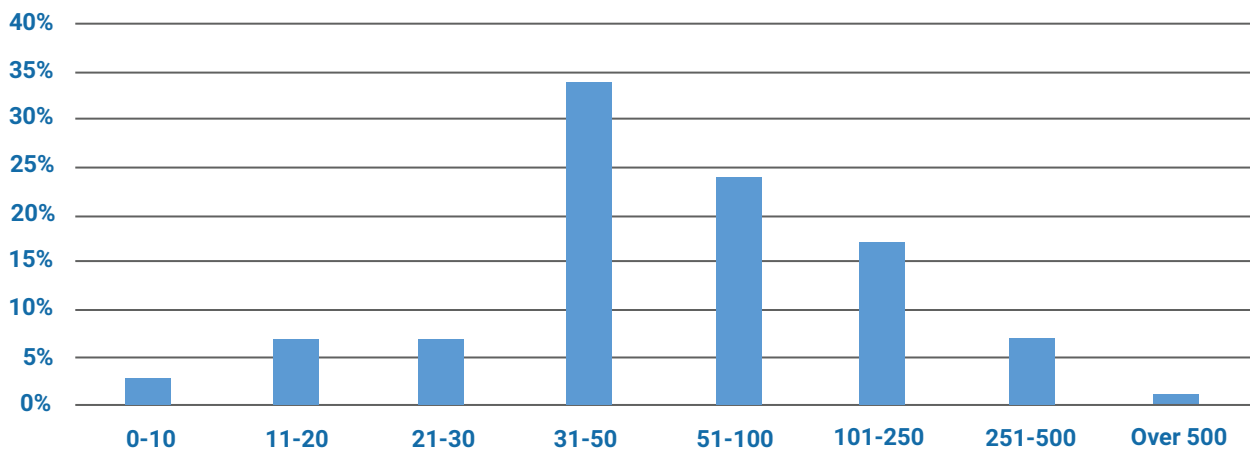
Value lost due to risk exposure in 2020



Value lost ranges from lost revenue to loss of business assets

How much is used to cover risk annually

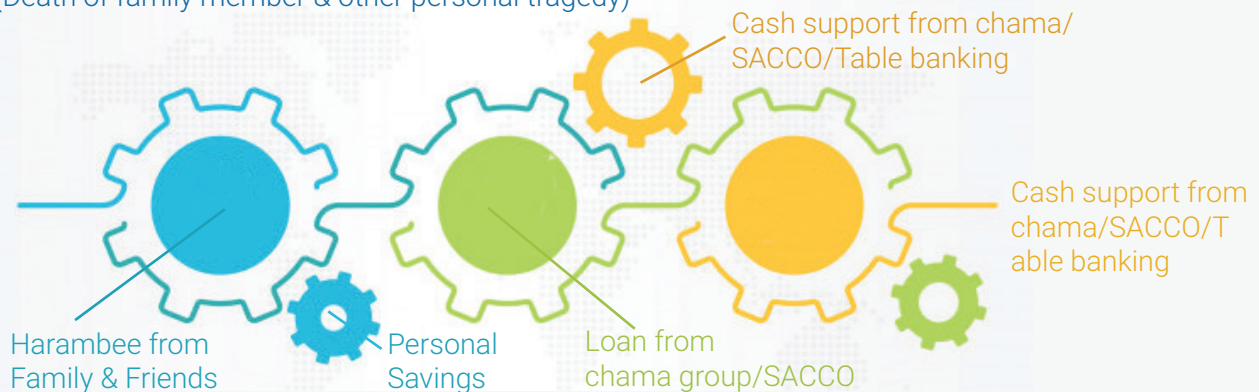
Annual Value of Risk Mitigation (Ksh 000)




- The value used to cover risk by SMEs is not funds set aside annually but is funds that have been either accumulated as savings or collectively saved in Chama groups and SACCOs.
- Insurance industry players targeting SME products can consider offering SME insurance product either at a micro level cognizant that over 90 percent of SMEs in Kenya are micro (With annual turnover of less than 500,000 Ksh) or targeting groups such as SME Chamas, SME SACCOs, SME Associations and self-help groups.

Mechanism of managing risk outside business

(Death of family member & other personal tragedy)



Regulatory Topography



The Insurance regulatory authority is the body with the mandate to regulate, supervise and develop the insurance industry in Kenya.

Kenya's insurance industry has been slow to innovate compared to the rest of the financial sector and IRA plans to lead and facilitate innovation in the insurance industry.

Regulatory Development

As part of its current strategic plan 2018-2022 IRA has set out to promote financial inclusion and make insurance products and services more accessible by leveraging on supportive regulation and technology. This has been done through:

1. Amendment of the Insurance Act to make provision for the development of micro insurance and social insurance schemes { <https://www.ira.go.ke/images/docs/new/Budget-Outrun--Insurance-Amendment-Act-2019.pdf>}
2. Establishment of regulatory sandbox and innovation hub



BimaHub

innovative • inclusive • insurance

The Insurance Regulatory Authority has developed an innovation hub "Bimahub" and Regulatory Sandbox "BimaBox" to harness innovation that will create synergies and efficiencies within the insurance sector with

the purpose of financial inclusion and enhanced access to insurance products and services. Bimahub is aimed at providing a safe and creative environment to experiment and prototype radical innovations and enabling deep collaboration among multi-disciplinary teams and diverse stakeholders.

The hub will enable lots of thinking, testing and prototyping enabling development of customer centric and innovative solutions to promote uptake of insurance.

Bimalab focuses on three key intervention areas:

Insurtech Hackathon

The aim of insurtech hackathons is to catalyze creativity, collaboration, and innovation in order to address the challenging questions around risks and loss prediction to allow the insurers to move further into the value chain and solve more complex problems.

Innovation Bootcamp

The Innovation Bootcamp is designed to enable students showcase innovations that leverage on technology to promote inclusive insurance aimed at improving the lives and livelihoods of vulnerable populations and businesses.

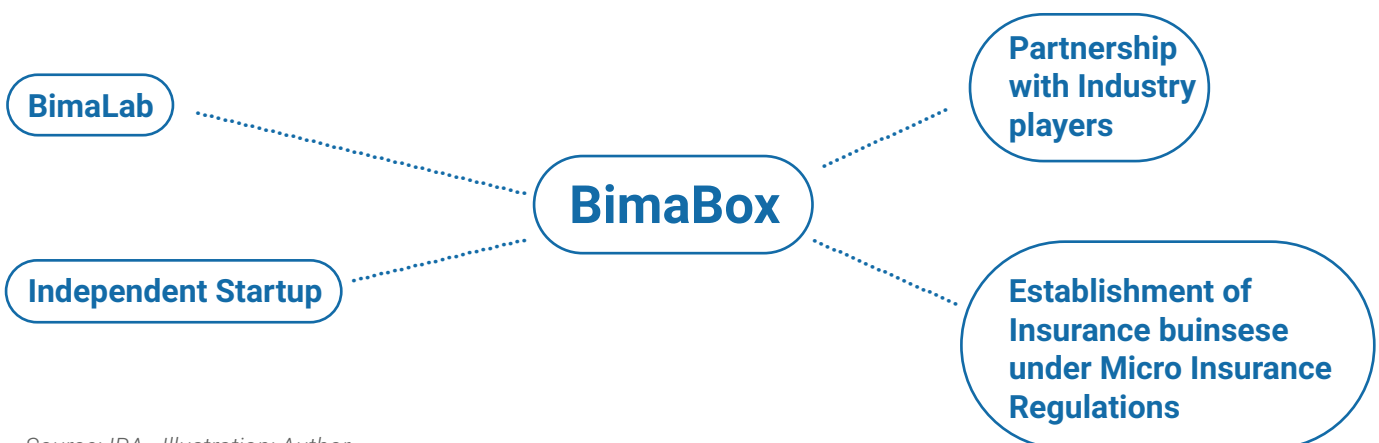


RegTech

Cognizant of the potentially significant value of RegTech in bridging the gap between cost of compliance to regulation by businesses and need for profitability; IRA through the platform aims to promote such enterprises that can assist in players in the industry comply more efficiently and with greater certainty with regulations and improve risk management, while cutting costs.

IRA; s methodology can be summarized as follows

Figure 1: IRA Innovation methodology



Source: IRA Illustration: Author



References

Insurance Regulatory Authority-<https://www.ira.go.ke/index.php> (Accesses on 28th April 2021)
Innovation Hub IRA-<https://innovationhub.ira.go.ke/bimabox> (Accesses on 28th April 2021)

Special Thanks to



A person is holding a smartphone in the foreground, with a group of people blurred in the background. The entire image has a blue overlay.

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