

Better days lie ahead for insurance sector

The year 2010 saw insurance companies' record double and triple digit profit growth with some making a turn-around following losses in the previous year. The bulk of these profits has been drawn from investment income with underwriting taking a backseat.

Pan Africa Insurance Holdings Chief Executive Officer Tom Gitogo terms the growth of the industry as pleasing but points out that there is still enormous potential for growth especially in insurance penetration which currently stands at a paltry 2 percent.

"The headroom for growth is high. Unfortunately a significant number of players are going at each other through price undercutting instead of putting concerted efforts to grow the size of the cake. With over forty companies in operation, this is too big a number compared to the size of our economy," Gitogo explains adding;

"The irony is that we still continue to see a lot of interest from bigger economies and increasingly from South African financial groups. This may not necessarily be a problem if it leads to innovation in terms of product features that cater for local needs and distribution,"

The insurance industry he says is divided into two , with some players performing very well and another set of those struggling amidst the many challenges that bedevil the sector such as fraudulent claims, price undercutting and poor governance.

Pan Africa Life Assurance is undoubtedly among the top performers in the sector based on the fact that 2010 showed significant growth.

The insurance firm made a Ksh. 589 million in profits after tax last year from Ksh. 138 million in 2009. The firm announced a bonus share issue and also paid a dividend of Ksh. 3 per share, a 76 per cent increase from the previous year's Ksh1.70.

"Our 2010 results were pleasing despite the challenges we faced last year. Our assets grew by over forty percent and we more than doubled our profits .We also recorded a 28 percent premium income growth. Moving forward we expect to still be the biggest life insurance firm," he said.

The company issued a one for one bonus share alongside the dividend thus allowing shareholders the flexibility to decide how much cash to realize as those needing more could sell the bonus shares.

"We mixed both the bonus issue and dividends to cater for different investor circumstances e.g. a big shareholder whilst requiring cash may not want to be diluted and so would not be willing to sell some of his bonus shares to get cash – the dividend therefore comes in handy. A small shareholder may opt to sell some of his bonus shares for more cash," explains Gitogo. The appetite for bonus issues is not that big. Most investors understand cash. Bonus issues improve trading since units become more affordable hence

increasing tradability. Bonus issues are good when a company wants to distribute profits and reserves without depleting its cash or other assets,” says Gitogo.

Investors, the CEO explains have become more sophisticated by the day.

The Initial Public Offerings (IPO) of the likes of KenGen, Safaricom and Kenya Re, Gitogo says, have raised awareness of investors. The participation and growth of fund managers and foreign investors have helped sophisticate the market.

“The capital market is fairly vibrant, though there are some investment vehicles in other markets that we don’t have here yet. There is need for more activity,”

He however cautions:

“Some of the investors make decisions based on emotions and herd mentality rather than logical assessment of the company they are investing in. This poses a danger of disappointment. There is need to approach investment from an analytical point of view if one is to make reasonable returns in the long run,”

Pan Africa Insurance Holdings was the first insurance firm to be listed on the Nairobi Stock Exchange (NSE) back in the 60s. “Being quoted means the company has to ascribe to high standards of professionalism and governance as you are subject to public scrutiny.. As CEO you also have many bosses since every stakeholder is your boss. Your leadership style and strategy is admired or criticized by more people as you are also openly analyzed,” says Gitogo.

In a past interview, Gitogo said the insurance firm was undertaking property investment projects that entailed the construction of a housing project in the palatial Runda estate through its subsidiary, Mae properties Limited.

This he explained would reduce dependence on the NSE and increase the certainty of performance and growth. “You do realize that most Insurance firms invest in the capital markets however this can prove to be dangerous as was witnessed during the post election violence and the subsequent global recession. Being an external platform, there is not much we can do to manage the goings on at the stock market,” he said.

The company is currently developing new products as it seeks to increase uptake of insurance products in the country. To improve distribution, Gitogo, a staunch supporter of banc assurance says the firm will employ the use of mobile phones since they have wider penetration in the country.

“We are looking at innovative and clever ways of distribution. Bancassurance offers greater potential. Most countries that have successful insurance sectors have embraced banc assurance. The banking industry has a wider penetration. Anyone seeking banking services needs insurance services too. The Government needs to legislate bancassurance appropriately as there are many roadblocks currently,” he reckons.

To reduce cost of doing business in the country and attract more investors’ Gitogo recommends improved infrastructure as one of the recipes.

“The Government should be an enabler of a conducive business environment. Government should not be involved in business that is why I support privatization. Instead of competing with the private sector, it should provide the right environment for business to thrive,”

A reputable legal system, he adds, will attract foreign investors since they want to invest in countries that have clear structures and order.

“I can understand if any investor is hesitant to invest in Yemen right now for instance, since it has had upheavals in recent times. Investors want stability. A friendly and predictable tax environment is crucial too. Too much tax is crippling,”

As we head to the 2012 General election, Gitogo argues that a stable political environment will be crucial if the country is to continue recording economic growth.

“The business community is sensitive to political bickering and uncertainties. For the country to continue recording growth moving forward. the Government will have to ensure a stable predictable environment,” he warns.

On the saving culture of Kenyans, or rather the lack of it, Gitogo says this can be attributed to the fact that most Kenyans argue they have nothing to save.

“Is this really the cause? Maybe part of the population that live on less than one dollar a day can rightfully claim this. However, today people in the informal sector have incomes that can allow them become savers or investors. We need to promote a saving culture,” he says.

Gitogo says the decision by parliament to enable workers access their employers’ remittances to the pension fund was heartbreaking and one that will do little good in efforts to encourage Kenyans save more.

To increase its foothold which currently stands at 23 percent, Gitogo says the insurance firm is rolling out new products such as the FlexiLife, a life insurance product that pays out benefits both on retirement and on death. Its long-term goal is to improve penetration of the insurance sector.



Tom