

Covid-19: Proposals to Government of Kenya

The Actuarial Society of Kenya

TASK Force on Covid-19

APRIL 2020

1. BACKGROUND

The Covid-19 pandemic has some far-reaching impacts to the economy of Kenya, and should the pandemic persist for the months ahead the country is likely to experience a recession.

The Government of Kenya has already laid out a raft of measures to protect the public against the economic impacts of the outbreak. The measures are largely tax incentives which are expected to cushion the public against adverse financial strains that they may experience.

The insurance and pensions industries are likely to be adversely impacted by the outbreak in both short and long-term. The two industries not only provides a safety net for insured lives, but also provides funds for investment in the financial markets as well as providing employment for the Kenyan population. Consumers of insurance and pensions products are likely to face challenges servicing their products and are therefore at risk of losing their covers as a result.

Actuaries have unique skills to model and, consequently, quantify the financial impacts of such pandemics in the interest of the public and private institutions. It is for this reason that The Actuarial Society of Kenya (TASK), through its **Covid-19 TASK Force** has been formed to support the government assess the potential risks that the public, insurance and pensions industries will be financially impacted by the outbreak.

The Actuarial Society of Kenya, TASK, was registered in the year 1993 and was officially launched in 2005. TASK brings together qualified and trainee actuaries in professional, educational and research organizations with an aim of promoting the actuarial profession in Kenya and East Africa.

This document represents the first phase of TASK's proposals that relate at a high level the initiatives that may be undertaken by government institutions to cushion the public against adverse impacts of the Covid-19 outbreak. TASK's view, as expressed in this phase of proposals, is that a consideration for financing for short term food security or income security to the population need to be urgently implemented especially if tougher social distancing measures continue to be implemented. Also crucial is financing to rapidly enhance the health infrastructure.

The proposals are to be submitted to the following governmental institutions:

- National Treasury
- Health Ministry
- Insurance Regulatory Authority (IRA)
- Retirements Benefits Authority (RBA)
- Unclaimed Financial Assets Authority (UFAA)

- Association of Kenya Insurers (AKI)

The second phase of TASK’s proposal, which will be delivered in early May 2020, will focus on the modelling of the pandemic and its impact on the healthcare system in Kenya. Further information on this is highlighted later in the document.

2. TASK PROPOSALS TO GOVERNMENT ON COVID-19

TASK has assessed the potential impacts of Covid-19 on consumers and players in the insurance and pensions products.

It is recognised that the fiscal constraints make it difficult to implement bigger and bolder measures to support the economy and workers. Whereas the more developed countries have been able to provide significant fiscal and monetary incentives in the fight against Covid-19, for countries like Kenya, in the absence of the fiscal ability, TASK proposes that home-grown solutions should be sought to tackling this crisis. Hence, industries like pensions and insurance may be tapped/mobilised to provide some of the immediate financing needed.

TASK proposals herein are in two parts:

- PART I – General Proposals
- PART II – Proposals with direct impact on the Pensions and Insurance industries.

PART I – General Proposals

These proposals are additional measures to complement the tax incentives implemented by the government:

		PROPOSAL	IMPACT
1	STATUTORY DEDUCTIONS	A suspension of statutory contributions to the NSSF, NITA, possibly even NHIF and other statutory levies by both employers and employees for a period of six months – subject to legal advice.	This would provide relief to employers and could help to mitigate retrenchments and salary cuts
2	RBA ACT	Temporarily relax the RBA Act to enable members of retirement funds to be able to get a cash backed loan of up to 25% of the funds in their retirement account subject to a maximum of Ksh. 500,000.	This would ease the financial pressure on the public consumers of pension products.
3	RENT PAYMENT	Issue notice to landlords to not distress tenants (both commercial and residential) for a period of three months and be open to renegotiation of leases.	This would ease the financial pressure on the public and industries.

4	HEALTHCARE	Provision of Insurance cover for the 200,000 health care workers in Kenya and the 15,000 doctors during this time of crisis.	Incentivise health workers
5	IMPORTATION DUTY	Waiver of import duties on importation of essential medical equipment.	Reduction of costs in essential medical equipment making it accessible to the general public.
6	TELECOMMUNICATION	Suspension or reduction of excise duty on mobile use and data	Will benefit the public both in formal and informal sector

PART II – PENSIONS & INSURANCE INDUSTRY SPECIFIC PROPOSALS

PENSIONS & Others

		MATTER TO BE ADDRESSED	PROPOSALS
1	INTEREST PAYMENTS ON PENSION ASSETS	<ul style="list-style-type: none"> Total pension assets in Kenya are estimated at K Shs 1.3trn. About 40% of these assets are in Government treasury bonds and bills for which the annual interest payments by Government would be approximately KSh. 60 Billion. Since pension schemes are typically long term, it is possible to have moratorium on interest payments on bonds and defer these payments. 	<p>Government to freeze interest payments on pensions assets for period of 1-2 years.</p> <p>This is likely to unlock for the Government KSh. 60 Billion annually for this and the next year that can then be deployed for food/income security or enhancing medical infrastructure.</p> <p>If there would need to be a negotiation with the pensions industry stakeholders (trustees and asset managers), TASK would be able to facilitate this engagement and provide the necessary technical input.</p>
2	NSSF LOAN TO GOVERNMENT	<ul style="list-style-type: none"> The NSSF has over KSh. 200 Billion in assets. It is possible for the NSSF to give to the Government a by using reserve funds and/or unclaimed amounts. 	<p>NSSF to offer the Government a soft loan in excess of Ksh. 25 Billion repayable over an agreed period of time.</p> <p>TASK would be able to facilitate any proposed engagement and provide the necessary technical input.</p>
3	UTILISATION OF UFAA ASSETS	<ul style="list-style-type: none"> UFAA has a total fund of currently in excess of KSh. 40 Billion representing assets that the Authority aims to reunify with the asset owners. However, it is likely that a lot of these amounts will be small amounts (unclaimed dividends, bank deposits, M-pesa amounts, insurance benefits) for 	<p>TASK would recommend an urgent analysis of the amounts collected thus far by UFAA and a release to the Covid-19 relief effort of amounts that are unlikely to be capable or cost effective for reunification.</p>

		<p>which the cost of reunification could be higher than the actual amounts.</p> <ul style="list-style-type: none"> The UFAA Act permits amounts that have not been reunified to be applied for charitable national causes. 	<p>This could potentially release amounts in the region of KSh. 10 Billion.</p> <p>TASK would be able to undertake the necessary analysis for this purpose.</p>
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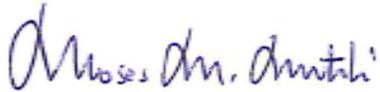
INSURANCE

		MATTER TO BE ADDRESSED	PROPOSALS
1	CLAIM PAYMENTS	<ul style="list-style-type: none"> The need to ensure that Covid-19 death claims are paid and insurers who may have not covered pandemics in their policy conditions will pay the Covid-19 claims. Slow payment of claims, whether Covid-19 related or not, since insurers may not have full access to requisite documents. Reinsurers should also consider ways of assist insurers with Covid-19 claims, possibly paying a proportion of the claims. 	<p>We propose insurers should relax any clauses in their policy conditions that deem Covid-19 pandemic related deaths to be void (if there are any) and consider making ex gratia payments for Covid-19 related deaths where appropriate.</p> <p>The claims turnaround time should be reduced to ensure that Covid-19 related deaths are paid out with the 48 hour period within which the deceased must be buried.</p> <p>Reinsurer should be flexible in their approach to Covid-19 claims and find a workable solution with insurers to ensure that insurers do not bear the full brunt of the Covid-19 related claims.</p>
2	LAPSES/SURRENDERS	<p>There is an anticipated increase in lapses and surrenders due to policyholders' potential inability to keep-up with the contractual premium payments.</p> <p>Some of the insurers may not be contractually obliged to provide any benefits on surrender because of the policy conditions.</p>	<p>We propose that insurers provide policyholders with a 3-month grace period. The grace period may be over and above any contractual premium holidays already in place for existing policies.</p> <p>For surrenders, we propose that companies look at policy conditions and find a way of providing surrendering policyholders some value on surrender.</p> <p>For Life Insurance policies, a consideration be made of reducing the Insurance Tax Relief from the current 15%.</p>
3	CAPITAL STRAIN TO INSURERS	<p>The impact of a slowdown in economic activities will adversely affect the financial market, sales, expenses and in general the operations of the insurance companies in Kenya. Therefore, both life and general</p>	<p>We propose the following two alternative measures for consideration by the IRA:</p>

		<p>insurers expect to realise lower premium income during this period.</p> <p>This is likely to adversely impact the liquidity of insurers, profits, asset values and capital held by insurance companies, consequently may lead to insolvency in some of the insurers.</p>	<ol style="list-style-type: none"> 1. Reduce the Prescribed Capital Requirements from 200% to 100%, or 2. IRA to relax some of the capital charges temporarily for a period of one year.
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The second phase of TASK proposals will focus on the healthcare system in Kenya. Medical insurers (both private & public) have a relatively high exposure to the COVID-19 pandemic due to the expected cost of medical claims due to inpatient & outpatient cases. TASK will focus on developing an actuarial model to consider the impact of COVID-19 on Medical insurers. In particular, TASK will develop a model to give a probability of insolvency for medical insurers due to COVID-19. TASK will utilize the 'official model' currently in place by the Ministry of Health for purposes of projecting the expected infections, admission & mortality.

TASK, as a local professional body, is able to discuss and provide further input to the proposals above through the undersigned.



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