

1. In terms of section 43(3) and 54(2) of the Insurance Act, I am required to approve the method of calculation of the above reserves. The following claims reserves are referred to here:-
 - outstanding claims reserves
 - incurred but not reported (IBNR) claims reserves and
 - any other claims reserves

Outstanding claims reserves

This reserve is required for the purpose of meeting unpaid claims under contracts of insurance in respect of incidents occurring and reported before the end of the accounting year. This reserve should be created based on a fair estimate of the liability under the outstanding claims. Adequate provision should be made for each liability

You are required to maintain a complete record of all claims as at each 31st December of each financial year and to update the same record when the claim is either settled, rejected, or the claim estimate is revised during the subsequent financial year. At this stage, I do not propose to call for a copy of the outstanding claims settlements but I would like the particulars to be maintained accurately by your company and to be made available for reference to this office, if and when required.

The records should be ready for immediate inspection, at all times.

Incurred but not reported (IBNR) claims reserve

You are requested to keep the reserve for incurred but not reported (IBNR) claims on the basis of your company's past experience. However, such reserves in respect of general insurance business should be maintained at not less than the percentages of net premiums written during the year as under:

Serial No.	Class of insurance business	Percentage of Net Premium Written
01	Aviation	Nil
02	Engineering	5%
03	Fire Domestic	1%
04	Fire Industrial	1%
05	Liability	5% - 1 st year

		3% - 2 nd year 1% - 3 rd year
06	Marine	2.5%
07	Motor Private	5%
08	Motor Commercial (Non-pool)	5% - 1 st year 3% - 2 nd year 1% - 3 rd year
08	Motor Commercial (Motor Pool)	20% - 1 st year 12.5% - 2 nd year 5% - 3 rd year
09	Personal Accident Insurance	5%
10	Theft	5%
11	Workmen's Compensation	5% - 1 st year 3% - 2 nd year 1% - 3 rd year
12	Miscellaneous	5%

In case your company considers it necessary to provide the IBNR claims reserve at a level higher than that indicated above, you are requested to refer the method of, and the need for, making such higher reserves to my office, for prior approval.

Any other reserves

In case your company considers it necessary to make any claims reserves over and above the two reserves indicated above, for example, catastrophe reserve, you should refer the method of and the need for, making such reserve to my office, for my prior approval.

2. You are required to keep the IBNR claims reserves and the outstanding claims reserves as above in your company's annual accounts commencing from those due as on 31st December, 1987. The same reserves should also be shown in the statements of assets and liabilities in Form No. INS.41-1 commencing with the one due as on 31st December, 1987.

Please acknowledge receipt of this circular.

IC 08/88: Premiums and Claims reserves in respect of general insurance business

- 1) Your reference is invited to this Department Circular numbers IC 02/88 and IC 03/88 both dated 26th February, 1988.
- 2) Messrs. Abdul Jaffer, George Kariuki and Erick Pryde representing the Association of Kenya Insurers called on my office yesterday to discuss the implementation

of the above Circulars. They advised that several of the insurers had already finalized their 1987 accounts and it would cause considerable inconvenience to them if the reserves were to be computed as per the above two circulars. Accordingly, I confirm having agreed to them that the methods for computation of the reserves shall apply from the financial year 1988 onwards instead of 1987 as previously indicated.

- 3) You are, however, requested to furnish the following particulars with reference to your company's 1987 accounts.

Unearned Premium Reserves

- a) Computation in the following format in respect of each class of business for which a revenue account is prepared:

Month (1)	Net Premium Written as shown in the Revenue Account Kshs. (2)	Unearned Premium	
		Proportion of (2)	Amount in Kshs.
		(3)	(4)
January		1/24	
February		2/24	
..		..	
..		..	
December		23/24	
Total			

- b) Description of the method(s) of computation used for the UPR in the 1987 accounts
c) Actual amount of UPR provided for each class of business.

Unexpired Risks Reserve (URR)

Please advise if any URR was kept in the 1987 accounts. If so, please give the following particulars :-

- a) The amount of URR kept in the 1987 accounts in respect of each class or sub-class of business and
b) The method of computation of the reserve.

Incurred But Not Reported (IBNR) claims reserve

For each class of business and within each class of business for the various sub-classes listed in part A of the Third Schedule to the Insurance Regulations, 1986, please advise the following:-

- a) The amount of IBNR claims reserve kept and
- b) The method used to compute it.

You are requested to forward the above particulars to this office not later than 29th April, 1988.

IC 15/88: Actuarial Services

All insurers transacting long term insurance business and even the others writing general insurance business would need actuarial assistance from time to time. Unfortunately, with the exception of a few insurers and the Government, there are no in-house actuaries and as such it becomes necessary to depend on external consultancy. Indeed, Kenya does not have a single Kenyan fully qualified in this field.

Apart from the obvious advantage in having an in-house actuary, dependence on external consultancy requires the payment of actuarial fees in foreign exchange. This has the effect of making the consultancy services rather expensive. Up to now, the government has permitted the importation of actuarial services as the services are not available within the country. Authority to do so in future will continue to be given, provided that appropriate action is taken to localize the service.

It is true that the qualification of an actuary can take a considerable time, effort and cost but at the same it is most essential that a beginning is made now. Accordingly, I request all insurers availing themselves of the services of external actuaries, including those who have expatriate in-house actuaries, to prepare plans to recruit and train at least one Kenyan officer and submit the same to me immediately. As soon as the trainee actuarial officer is earmarked, you should submit his or her particulars to me and keep me posted on the progress in the training and progress in the professional examinations from time to time.

You should allow the trainee actuarial officer to handle routine actuarial work including the preparation of the valuation data so that the quantum of services required of the external consultancy is minimized and hence a reduction is achieved of the foreign exchange outflow from this area.

You should appreciate that in the future approval of applications for remittance towards actuarial fees will be subject to the action taken by your company for training of the local actuaries.

You are, therefore, requested to let me have your detailed advice on the action your company intends to take on this matter, latest by 30th September, 1988.

IC 07/88: Statutory funds in respect of long term insurance business

Your attention is invited to sections 45 and 46 of the Insurance Act, 1984 dealing with the establishment and application of statutory fund(s) in respect of the long term insurance business.

In terms of the aforesaid provisions, you are requested as under:-

- i. To establish statutory fund(s) in respect of each of the following classes of business which are being transacted by your company-
 - a) Bond investment
 - b) Industrial life
 - c) Ordinary life
 - d) Superannuation

You are requested to indicate the classes of business not being transacted by your company;

- ii. In case the company proposes to establish two or more separate funds in respect of any of the above classes, to indicate the names of each of such statutory fund(s);
- iii. To confirm that the procedures regarding separation of accounts as detailed out in sections 45 and 46 will be strictly adhered to. This would, inter alia, mean that separate revenue accounts in Form No. INS. 54-2 will be prepared in respect of each statutory fund;
- iv. To furnish a statement showing particulars of all assets and liabilities as at 1st January, 1988 in respect of each statutory fund established by your company

IC 011/88: Submission of annual accounts and returns

You are requested to let me have your reply by not later than 31st March, 1988. However, the statement referred to in (iv) above may be furnished latest by 30th June, 1988.

Your reference is invited to section I of this office Circular No. IC 05/88 dated 15th March, 1988 dealing with accounts. I have received some references including a copy of the AKI Circular No. IC 18/1988 dated 15th March, 1988 with regard to the format of the printed accounts. My Office has had discussions with representatives and firms of auditors

In order to expedite the matters and also to achieve a uniformity in presentation of the printed accounts, I am agreeable to the following:-

- i. Revenue accounts (Form No. INS. 54-1 and Form No. INS. 54-2)

The accounts should be in the above format only but may make the following changes:-

- a) you may remove some or all of the vertical and horizontal lines in the form;
 - b) you may not print the form reference number appearing at the top and the instructions on the form;
 - c) you may add a column after the last column for total figures for the previous year for the sake of comparison.
- ii. Additional statement for funded business (Form No. INS. 54-3)
 - a) The notes under (i) above apply
 - b) In case your company does not have any funded general insurance business, you need not include this form in your printed accounts.
 - iii. Profit and loss account (Form No. INS. 54-4)
You should be guided by notes under (i) above.
 - iv. Balance sheet (Form No. INS. 54-5)

In addition to the notes under (i) above, you should note the following:-

- a) If your company writes both long term and general insurance business, you may print the balance sheets for both classes together showing the respective figures in separate columns. You may also have a separate column for the total amounts for the two balance sheets and a further column for the corresponding total figures for the previous year.
 - b) All the items in the balance sheet format must be shown in the prescribed serial order. However, certain details in the balance sheet may need more detailed break down or explanation which should be given by way of accounting notes e.g. the particulars of fixed assets and depreciation thereon.
 - c) Separate columns for “related bodies corporate” and “other” need not be shown provided the relevant information as to the related bodies corporate is given against the concerned items in the balance sheet.
- v. The auditors’ report required under section 58 of the Insurance Act, 1984 should be printed. Further, auditors’

report as per the Companies Act should also be included in the annual report.

vi. Companies Act requirements

The Kenya Accounting Standards issued by the Institute of Certified Public Accountants of Kenya seem to provide guidelines in this regard. Accordingly, I would request you to follow the same to provide the required information in your annual report. I am keen that all reports, statements and information as indicated in the above guidelines should be prepared so that annual report of all insurers would have a uniform presentation.

Please, however, note carefully that whilst being guided by the notes therein, the requirements of the Insurance Act referred to in paragraphs (i) to (v) above should not be altered except as indicated therein.

vii. Any other information

In addition to the above, you may publish other information pertaining to your business including any graphical or tabular presentation.

viii. Printing

I request you to have the annual report duly printed duly bound. The pages in the annual report should be serially numbered and a table of contents shown at the beginning of the report.

I now request you to ensure that your company's accounts (beginning with those for the year 1987) conform to the above requirement and that they are submitted within the time stipulated in the above circular.