



POLICYHOLDERS COMPENSATION FUND

The Fund You Can Trust

THE ROLE OF PCF IN CLIENT COMPENSATION

19TH FEBRUARY 2013

Presentation Outline

1. Background
2. Introduction
3. Stakeholders
4. Performance of mandate
5. Way Forward
6. The Role of SACCOs
7. Conclusion



BACKGROUND

Background

Constitution of Kenya

Article 46 – Consumer Rights

- (1) Consumers have the right –
 - (a) to goods & services of reasonable quality
 - (b) to the information necessary for them to gain full benefit from goods & services
 - (c) To the protection of their health, safety, and economic interests
 - (d) To compensation for loss or injury arising from defects in goods & services.

Background

Financial Services in Kenya

- Banking
- Insurance
- Capital Markets
- Pension
- Savings and Credit Co-operatives
- Microfinance

Background

Insurance in Kenya

- 50 Insurance Companies
- Insurance Business Categories
 - General Insurance
 - Long – term Insurance
 - Composite Insurance
- Industry characterized by overall growth & accounts for 3.1% of the Gross Domestic Product.

Background

Kenyan Insurance Sector characterized by the collapse of several Insurance Companies :-

#	Name of Insurer	Class of Business	Year
1.	Kenya National Assurance Co. Ltd.	Composite (Life & General)	1996
2.	Access Insurance Co. Ltd.	General	1998
3.	Stallion Insurance Co. Ltd	General	2002
4.	Lake Star Insurance Co. Ltd	General	2002
5.	Liberty Insurance Co. Ltd	General	2003
6.	United Insurance Co. Ltd	Composite	2005

Background



Reasons for collapse

1. Mis-management
2. Fraud
3. Non-compliance with law
4. Uncompetitive practices
5. Lack of competence
6. Re-insurance failures
7. Economic Downturns

Background

Effects of a collapsed Insurer

- Shareholders – Loss of investment
- Employees - Loss of jobs & incomes
- Suppliers - Loss of revenues for goods & services
- Sector's (Insurance & Financial) – Instability
- Government – Poor Economic performance



Background

Effects of a collapsed Insurer on a Policyholder

#	General (Non Life) Insurance	Life Insurance
1.	Exposure to Risks	
2.	Loss of Premiums	
3.	Loss of Assets	Loss of Savings
4.	Litigation	Reduced benefits
5.	Negative Perception to insurance	

Background

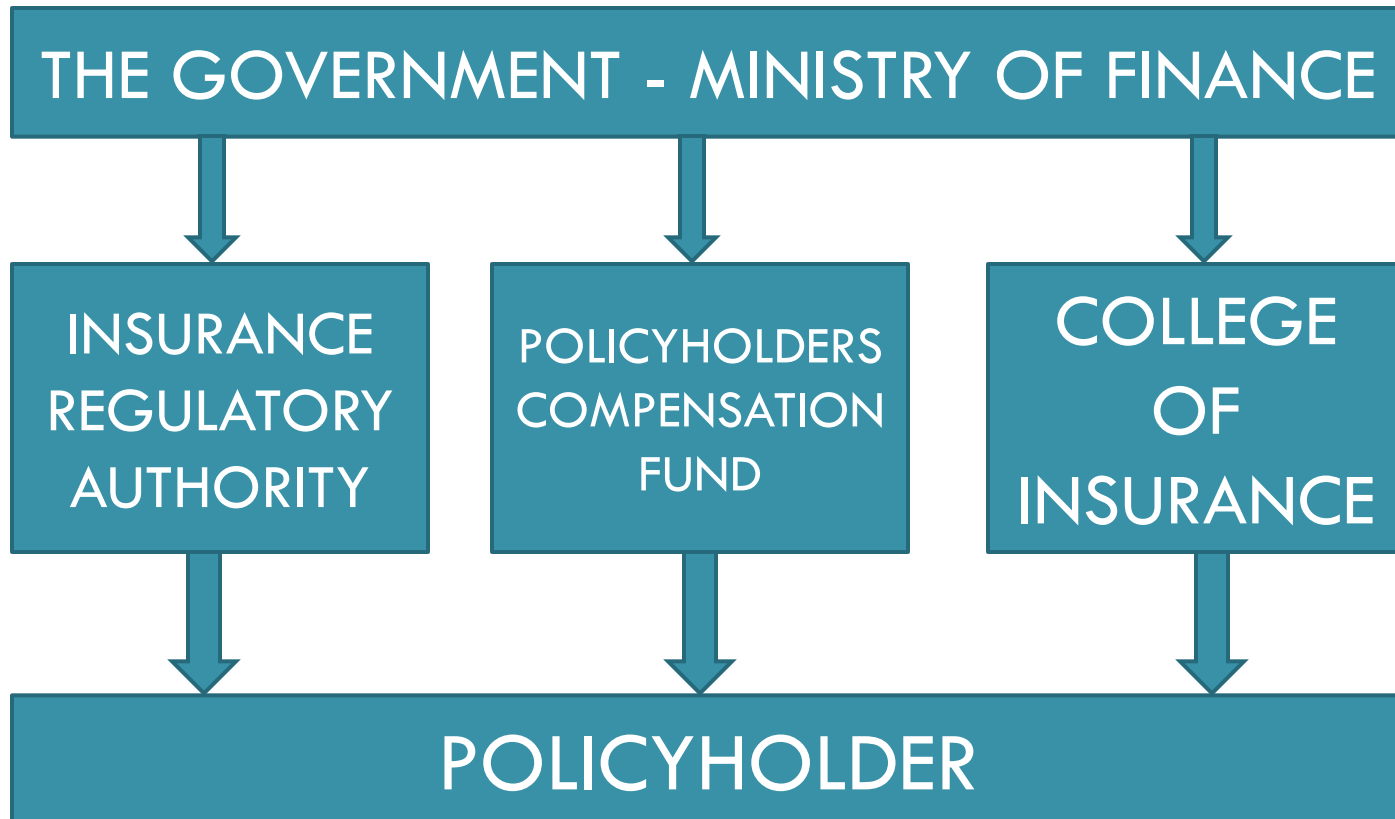


Need for Compensation to:

1. Protect policyholders from losses
2. Protect policyholders from exposure to risks
3. Protect policyholders from litigation
4. Promote confidence & stability in the insurance industry.

Background

- Government initiated Insurance Sector Reforms



Background

	Financial Services	Regulator	Protection Scheme
1	Insurance	Insurance Regulatory Authority (IRA)	Policyholders Compensation Fund (PCF)
2	Banking	Central Bank of Kenya (CBK)	Deposit Protection Fund (DPF)
3	Capital Markets	Capital Markets Authority (CMA)	Investors Compensation Fund (ICF)
4	Pension	Retirement Benefits Authority (RBA)	-
5	Savings & Credit Co-operatives	SACCO Societies Regulatory Authority (SASRA)	-



INTRODUCTION

Introduction



The Policyholders Compensation Fund (PCF) is an insurance compensation scheme established for the **primary purpose** of protecting the policyholders of an insolvent insurance company by paying them compensation for their unsettled claims.

Introduction



Secondary purpose is to develop the insurance industry through:

- i) Promoting confidence by safeguarding the interests of policyholders.
- ii) Advising the Government on insurance consumer protection (compensation) policy.

Introduction



PCF is:

- i) established under the provisions of the Insurance Act.
- ii) a state corporation under the Ministry of Finance.
- iii) Governed by a Board of trustees and operated by a Managing Trustee.

Introduction



Vision

To be a world class policyholder protection and compensation Fund

Mission

To create confidence in the insurance industry through compensation to policyholders of an insolvent insurer.



STAKEHOLDERS

Stakeholders

Policyholders

- They are the Fund's purpose of existence.
- **Beneficiaries:** The Fund pays them compensation for their unsettled claims in the event their insurer becomes insolvent.
- **Contributors:** Contribute to the Fund by paying a levy.

Illustration

ABC INSURANCE CO. LTD

Authorization Date: 19/02/2013

DEBIT NOTE No. xxx

Insured: A.N. Other

Cover From: 18/02/2013

Policy Number: XXX/XXX/XXX

To: 17/02/2013

Regarding: RENEWAL PREMIUM

Class of Business: XXX

Currency:	KShs.
Basic Premium	10,000.00
PH Levy (0.25%)	25.00
<u>Training Levy</u>	<u>20.00</u>
<u>NET PREMIUM PAYABLE</u>	<u>10,045.00</u>

Stakeholders

Insurers

- **Issue** insurance policies.
- **Contribute** to the Fund by paying a levy.
- **Benefit** from the enhanced confidence & stability of industry.

Stakeholders



Insurance Regulatory Authority

- Strategic Partner of the Fund

Insurance Entities

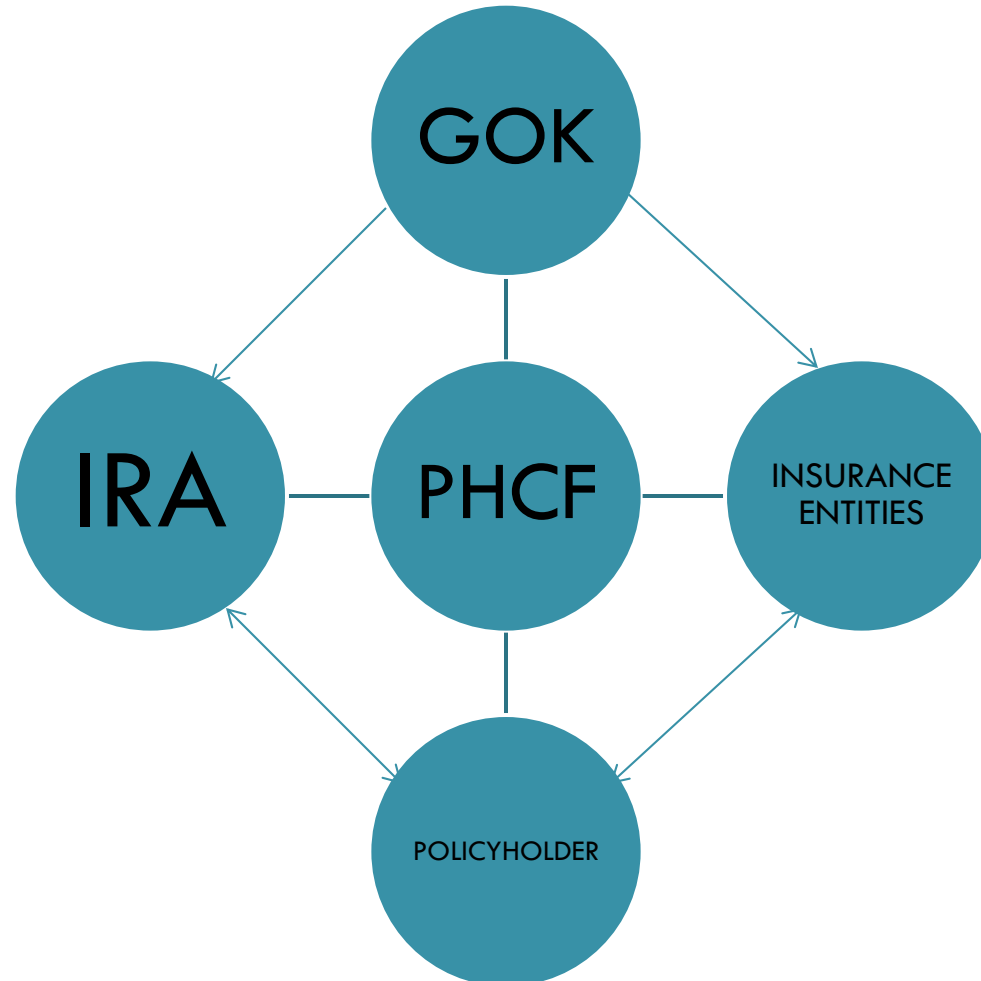
- Receiver Managers
- Liquidators
- Loss Assessors

Stakeholders

The Government

- The Fund is a **State Corporation**.
- Government's interest is to develop financial sector by **promoting insurance business** through safeguarding the interest of policyholders.
- The government may be required to **fund** the operations of the Scheme from time to time.

Stakeholder Relationship



- Insurance Companies
- Insurance Brokers
- Loss Adjustors
- Statutory Managers
- Liquidators



**HOW DOES THE FUND
PERFORM ITS MANDATE?**

Performance of mandate



The Fund performs its mandate by:

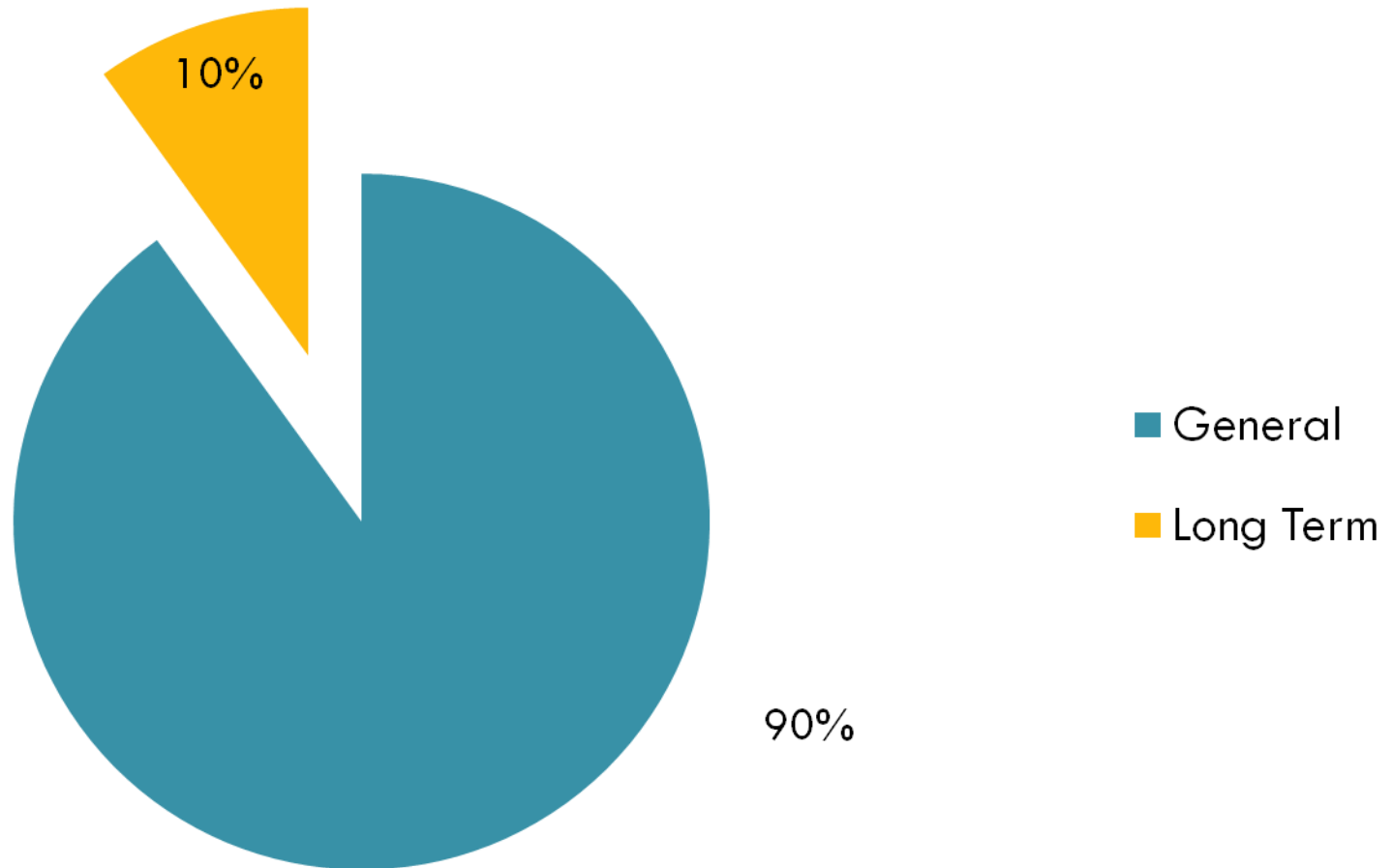
- i) Collection of funds
- ii) Payment of Compensation

Collection of Funds

Sources

- ❑ **Contributions** paid by policyholders & Insurance Companies.
- ❑ **Penalties** payable under the Insurance Act & PCF regulations.
- ❑ **Interest** from the investment of Surplus assets.
- ❑ **Monies** appropriated by Parliament.
- ❑ **Grants** or **Donations** to the Fund
- ❑ **Loans** borrowed for the purposes of the Fund
- ❑ Reimbursements

Contributions per Business Class



Collection of Funds

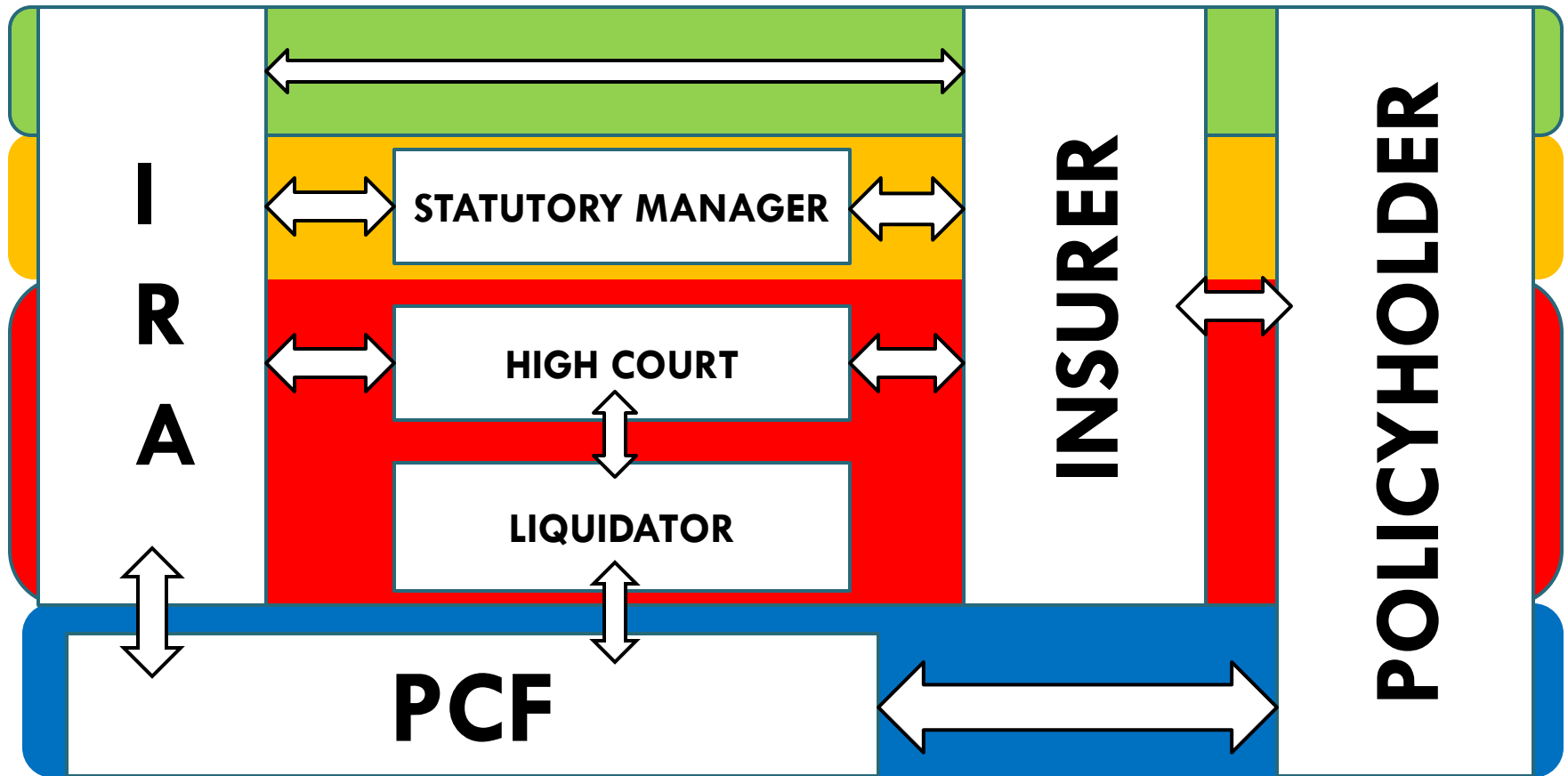


- Total Contributions collected as at 30th June 2012 - **KShs. 2.1 billion.**
- General Business - KShs. 1.89 Billion
- Long Term Business – KShs. 210 million

Payment of Compensation

- The Fund shall only pay compensation when an insolvent insurer is wound up.
- An insurer shall be considered insolvent if:
 - i) It is declared by the courts due to its inability to pay its liabilities
 - ii) It does not meet solvency/liquidity requirements set out in the Insurance Act.

Compensation – Insolvency Process



It is thus a scheme of last resort.

Compensation – Status of Companies

#	Name	Business	Status
1	Kenya National Assurance Company (2001) Ltd	Life	Paying benefits as closed life fund
2	Invesco Assurance Co. Ltd	General	Operational
3	United Insurance	General	Statutory Management
4	Standard Assurance Co. Ltd	General	Statutory Management
5	Blue Shield Insurance Co. Ltd	General	Statutory Management
6	Concord Insurance Co. Ltd	General	Statutory Management

Compensation - Eligible claimants

Any policyholder with a Kenyan issued policy may claim from the Fund

except those with....

- i. Claims arising before the fund commenced its operations in 2005.
- ii. Claims arising after an insurer is placed under statutory management.
- iii. A policy of re-insurance.

Compensation – Policies Covered

LONG TERM INSURANCE	GENERAL INSURANCE
Life Assurance	Aviation Insurance
	Engineering insurance
	Fire Insurance
	Liability Insurance
	Marine Insurance
	Motor Insurance
	Personal Accident
	Theft Insurance
	Workmen's Compensation & Employer's Liability Insurance
	Miscellaneous Insurance

Compensation - Payment



- Amounts payable as Compensation shall be determined by the Board in consultation with the Minister.
- Current amount is KShs. 100,000 per policyholder claim.

Compensation – Time Limit



- A policyholder has up to **two (2)** years from the date of insolvency of an insurer to lodge a claim with the Fund.
- No claim made after the lapse of 2 years is entitled for any compensation from the Fund.

Compensation - Conditions

- Compliance to conditions imposed by the Fund
 - Claims shall be submitted to the Fund in the required format
 - relevant support documentation
 - Claimants must make an honest disclosure
 - Avail any other information, whether on oath or otherwise.

Compensation - Challenges



Fund has not paid compensation to date.


- Extensions of Statutory Management.
- Slow judicial processes for the winding up of insurers.



THE WAY FORWARD

The Way Forward...

- a) **Review of compensation amounts**
 - Increase from KShs. 100,000
- b) **Streamline compensation process**
 - Shorten process triggering payments
- c) **Develop strategic partnerships**
- d) **Conduct public education campaigns**
- e) **Legal reviews & amendments**
 - Improve laws & regulations
- f) **Expand the mandate of the Fund**
 - Increase coverage to other categories of policyholders



THE ROLE OF SACCO MEMBERS

The Role of Sacco Members

1. Buy insurance to cover risks.
2. Use insurance as additional saving method.
3. Educate other members and the public on the benefits & importance of insurance
4. Protect the public by guiding them on insurance related matters



CONCLUSION

Conclusion – PCF is a safety net





Thank you.



POLICYHOLDERS COMPENSATION FUND

The Fund You Can Trust

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